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The Development of Hongkong

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I. EARLY STAGES

This series of eight articles sets out to review, mainly in map form, some stages in the development of Hongkong. In the distant past we find records are naturally more uncertain and what maps we are able to present are compilations from existing data. Although the area of Hongkong and New Territories has been settled since pre-historic times most of the discussion will be concerned with events since the establishment of the Colony. The development during this period is well illustrated by a variety of maps, old and new, ranging from the 1843 map of Hongkong island to the latest air photographs of the Colony. Mainly using this information as a base we shall attempt to trace the way in which the area has developed into the present complex of a multi-racial modern commercial and industrial city with a mainly agricultural hinterland in the New Territories.

It may be useful in a first map (Map 1) to recall the stages of development of the Colony from its accession to its present size. For the first 20 years of its existence, British Territory was confined to Hongkong island; in 1861 Kowloon south of Boundary Street and Stonecutters island were added and then in 1898 Britain obtained, on a 99 years lease, that part of the mainland and the offshore islands now known collectively as the New Territories. Later articles will outline in more detail and attempt an explanation of this growth. Now the city of Kowloon has spread well beyond the limits of Boundary Street and the area south of the dotted line (Map 1) is administered as part of the urban area and known as New Kowloon.

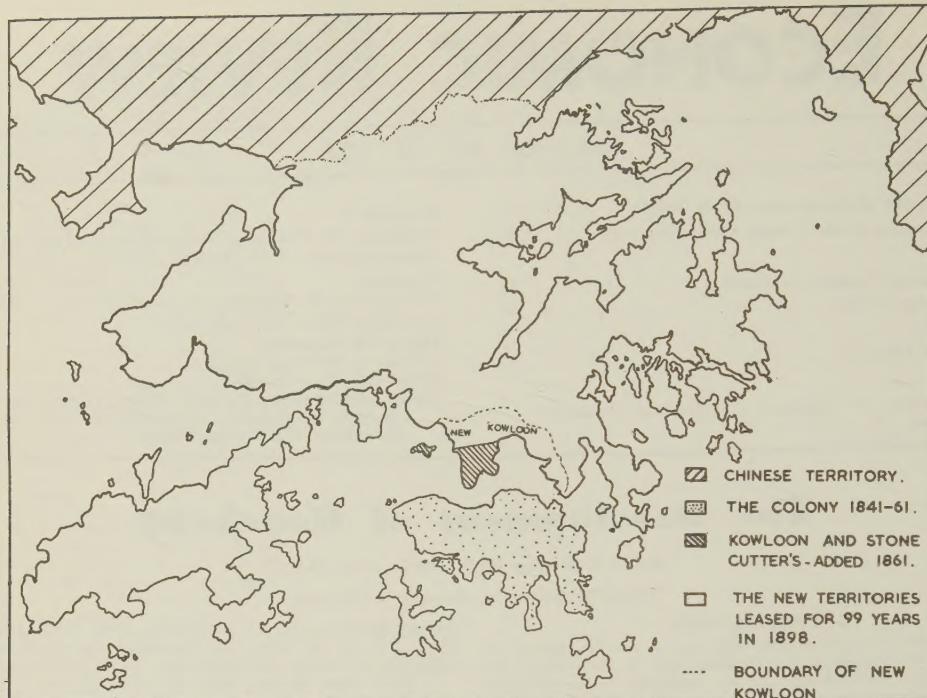
For many history books 1841 is the starting date for the study of Hongkong, as written data in English becomes available, but of course people had lived in the area for between two and three thousand years before this time. Evidence of settlement before the time of Christ is archaeological. During the past 30-40 years a number of keen amateur archaeologists have searched the beaches and hillsides of the area for signs of these ancient peoples. Their finds, which may range in origin over a considerable period of time, include stone axes, roughly chipped or finely polished and shouldered; hard and soft pottery with various typical patterns and designs; beads; jade ornaments and some bronze swords and implements. All these show only the slightest influence of Chinese culture and belong to the aboriginal tribes who appear to have inhabited the area. Map 2¹ shows localities where such material has been found; some symbols indicating only a few fragments of

pottery picked up on a sandy beach, while others as at Lamma, Shek Pek or So Kun Wat represent the large and varied collection of objects obtained from these prolific sites.²

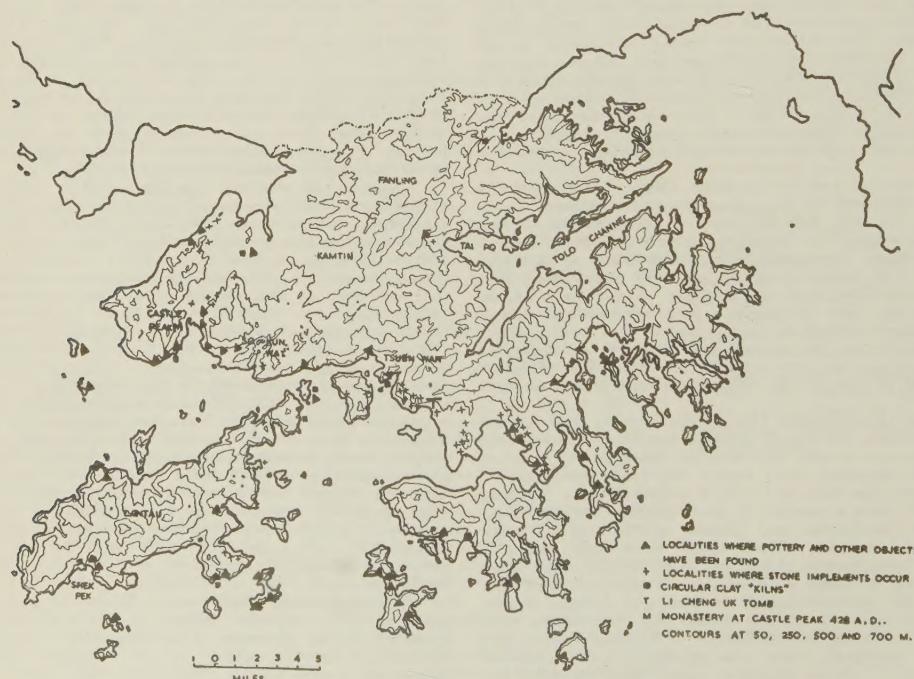
Who these people were is still unknown. They were probably related more to the primitive tribes of Indochina than to the Chinese who entered as settlers from the north much later. The distribution of the artifacts, (Map 2) indicates that they were closely connected with the sea, probably living around the more sheltered west-facing bays. Few objects have been found inland or near exposed bays. At this time the area was almost certainly forested and the life of the people may have been much like that of the Tanka at the present time. Scattered settlements and hunting ashore on and around the beaches may have been supplemented by houseboats and fishing. It is just possible that the Tanka represent the partially integrated descendants of these early peoples.³

Around and after the first century A.D. there is evidence of a different influence spreading into the area. The Li Cheng Uk tomb⁴, discovered in 1955 in Lai Chi Kok bay, was constructed in the Han period and is of Chinese origin, suggesting Chinese influence at least of a military character even in this remote region. W. Schofield (personal communication) reports that quantities of Han pottery were found in the Castle Peak valley before the 1939-45 war. These he believed resulted from a settlement of soldiers, who took up agricultural activities. (Apparently other parts in the Colony have yielded similar finds but details are not available). The Castle Peak area again figures in records with the establishment of the monastery supposedly in 428 A.D. Much later occurred the development of the pearl fisheries at Tai Po. According to Sung Hok Pong⁵ these were first recorded in 716 A.D. and, after a period of relapse, due to considerable loss of life during collecting, were worked again around 964 A.D. The industry flourished intermittently until the last recorded period between 1280 and 1374 when it finally stopped, not on humanitarian grounds, but because the pearls appeared to have been worked out. Barnett⁶ suggests that part of the function of the military at Castle Peak was to safeguard the transport of the pearls overland via Fanling to Castle Peak to be shipped up river to Canton.

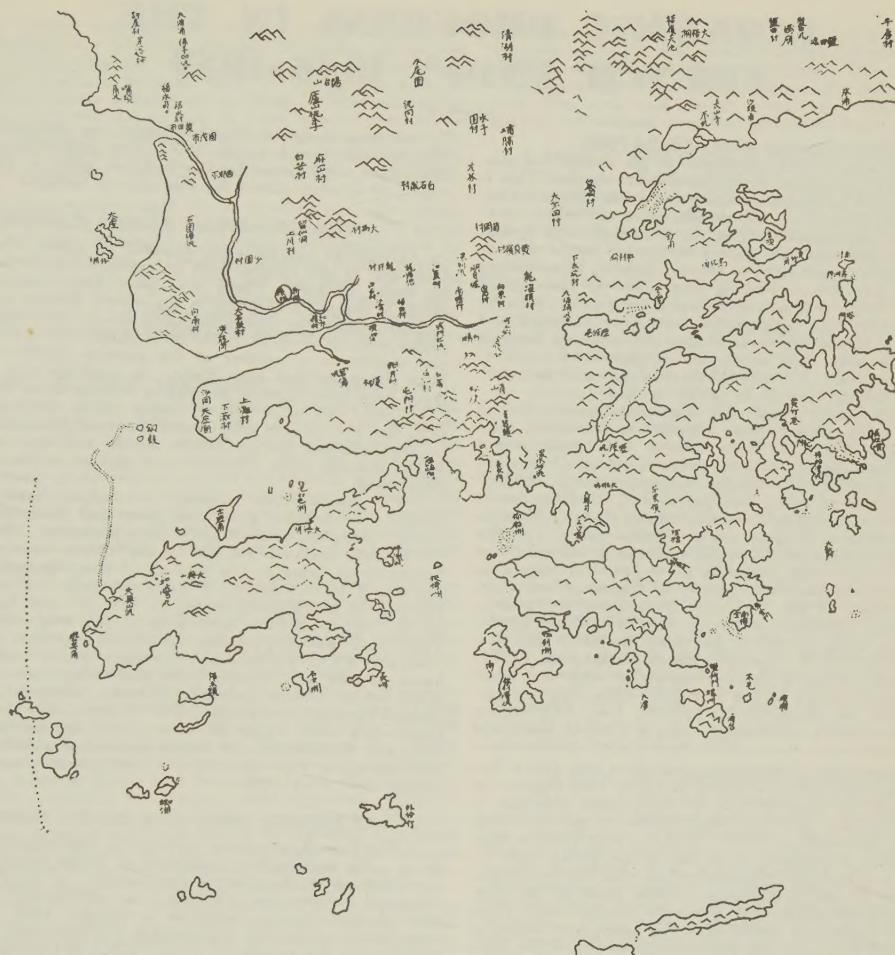
During the first 1,000 years A.D. the Chinese occupation appeared to be primarily military in nature though evidence, archaeological or otherwise, of the indigenous population during this period is very scanty, or ill recorded. The peculiar depressions on the hillside which have been interpreted as log slide scars, made as trees were cut and pushed down the hillside



(1) THE TERRITORIAL GROWTH OF HONGKONG.



(2) HISTORICAL DEVELOPMENT OF THE COLONY.



(3) CHINESE MAP OF HONGKONG REGION, 1866, FROM KWANTUNG PROVINCIAL GAZETTE.

in a sort of natural chute may be related to this period. Also the small circular clay structures found on some of our beaches and believed to be later than the pre-historic period,⁶ may be as Schofield suggests, charcoal kilns used by these woodcutters. Examples currently known to us are recorded on the map (Map 2).

Chinese agricultural settlement in the Colony has been continuous since the eleventh century A.D.⁷ and perhaps for about 100 years before that. Most of the evidence comes from Chinese records and legends and from the present pattern of settlement. The first permanent settlers with a rice farming culture occupied the flattest and best agricultural land, in which we now find the old, square, walled villages (Kam Tin is a good example). The settlers were mostly Cantonese but around the same time it seems probable that Hakka migration into the area also took place though, as they were then somewhat subservient to the Cantonese, they occupied the less desirable lands. However Barnett suggests that hill tribes continued to exist much later than this and in the fourteenth century both sides of Tolo Harbour and the hills between Tai Po and Tsuen Wan were still supposed to be occupied by these

peoples. To check these theories, a detailed archaeological investigation of the area in a search for village sites and implements is necessary as none is yet recorded. (Map 2).

From the 12th century onwards a steady spread of Chinese agricultural settlement with partial assimilation of the hill tribes seems to have occurred. The presence of unfriendly hill peoples may have been a factor in the non-occupation of hill districts by Chinese until the last four or five hundred years. Another factor may have been the population pressure within the latest periods. Most of the Hakka villages in hill districts have a history of only 120 to 400 years.

A noteworthy but little recorded event was the development of the tea industry. Evidence of this is found in the herring bone patterns of the abandoned terraces on the upper slopes of Tai Mo Shan, Grassy Hill and the Buffalows'. The industry probably flourished in the eighteenth and nineteenth centuries and died out with the slump in the China (1880-90) tea market.

Several Chinese accounts of the history of this area exist and they could probably help to fill in some of the gaps in our present knowledge. A Kwangtung District Gazetteer went through a number of editions of which only the 1866 one

ECONOMIC PROGRESS IN THE FRENCH UNION 1946-1957

PART II

GIANT TURBINES AND GENERATORS

France has always been prominent in the design and production of heavy equipment for hydroelectric plants. This is not surprising since its high mountains and waterfalls make her an ideal proving ground for the development of "white coal" or water power resources. Indeed, the first high head hydroelectric installations—the forerunners of our big power stations—were built three quarters of a century ago in Dauphiné, a French Alpine province. Availing themselves of their initial advance, the French technicians and manufacturers of heavy electric equipment have engaged in unceasing research and have, up to now, maintained their leading position. In the past six years, particularly, they developed an impressive array of new installations which rank among the most powerful and most efficient in the world. Let us list a few of them:

In the high head class, the Tignes-Malgovert (Alps) power station, equipped with four 30,000-Kva horizontal shaft generators, whose Pelton turbines spin at 428 rpm., with a head of 2,427 feet, and the Pragères-Cap de Long (Pyrénées) station, equipped with two horizontal Pelton turbines of 109,000 HP, utilizing a head of 3,687 feet, the world record for power in the high head category; in the medium head class, the famous Léon Perrier Station at Génissiat, in the Rhône valley, with five Francis vertical turbines of 90,000-HP spinning at 150 rpm. and using a head of 215 feet, now the most powerful station in Western Europe, and the twin stations of Chastang and Bort, in the upper valley of the Dordogne river (central France), the former being equipped with two 137,000-HP, 150-rpm., Francis turbines using a head of 237 feet, the latter with two 100,000-Kw, 153,000-HP Francis turbines working on a 371-foot head (these schemes stand comparison with the latest American achievements); in the low head class, the Ottmarsheim plant, on the Rhine river, with its four 39,000-Kva, 94-rpm, Kaplan turbine generators, using a 59-foot head, and

appears to be available in Hongkong; and there was also a Sun On District Gazetteer¹ first published in 1643, with editions in 1672, 1688 and the latest known is 1819; none of which is available. Map 3 is a simplified reproduction of part of a map of Kwangtung² published in 1866. It is the only Chinese map of the area which is available to us and is interesting both for the information it gives of village sites and also for the insight into the nature of the cartography. While parts of the map are good general representations, the area around Castle Peak in particular is hopelessly distorted and a large part seems to have been missed out. As this contains large villages like Kam Tin, we must conclude that the map is of more value historically than as a document to be relied on for a picture of prevailing conditions at that time.

In the early 19th century British influence came to an area which was much like any other in coastal South China. It had a long and complicated history much of which is unknown in detail and, as far as China, was concerned was a remote, not well-known, pirate infested district.

NOTES

¹ Compiled from Maps in Heaney, C.M. 1928, Hongkong Celts; Schofield, W., Personal Communication; Davis, S.G. The Geology of Hongkong; information from Prof. F.S. Drake, and personal investigation.

² See Heaney, C.M. and Shellshar J.L., 1932. A Contribution to the Pre-History of Hongkong and the New Territories. First Congress of the Pre-historians of the Far East, Hanoi. Pp. 63-76. Finn, D.J. S.J. 1932-36. Archaeological finds on Lamma Island. The Hongkong Naturalist Vol. III-VII. Schofield W., 1940. The proto-historic site of the Hongkong culture at Shek Pek, Lantau, Hongkong. Proc. of the Third Congress of Pre-historians of the Far East. Gov. Printer, Singapore. Pp. 236-305.

³ Barbour S.T. "Hongkong before the British" *T'ien Hsia* XI & XII.

⁴ The Li Cheng Uk Tomb, Hongkong. University of Oriental Studies Journal Monograph. In preparation (F.S. Drake ed.).

⁵ Legends and Stories of the New Territories 1935-37. The Hongkong Naturalist, Vol. VI-VIII.

⁶ S.C.M.P. Nov. 9th 1955.

⁷ Heaney, C.M. 1935. Fields of Hongkong. The Hongkong Naturalist, Vol. VI Pp. 233-39.

⁸ Barnett *ibid.*

⁹ The Sun On district set up in 1572 included what is now Hongkong and the New Territories together with a strip of land to the north.

¹⁰ From the Kwangtung Provincial Gazetteer 1866.

(To be Continued)

the celebrated André Blondel Station at Donzère-Mondragon (Rhône valley) with its six 50,000-Kva generators powered by 70,000-HP, 107-rpm., Kaplan turbines using a 73-foot head, which set another record for this class of turbines.

THE NEW STEAM POWER STATIONS

Owing to the constant increase of power demand, more than half of the electric load in France must be served today by steam stations. These may even supply more than two thirds of the national needs in the winter months or during dry periods, when the hydraulic installations are idle. This explains why, as early as 1945, the decision was taken to expand and modernize a number of the existing plants, such as the huge plants located near Paris. In addition new ones of all types have been erected: regulating stations as at Brest, Nantes, Creil, etc., coal mine stations which utilize the by-products of coal, like the Carling and Grosbliederstroff Stations in Lorraine or the Violaines Station in the North, and foundry and steel works stations using blast furnace gas as at Hererange and Richemont.

Put into service in quick succession, these plants have shown a remarkable growth of ideas and potentialities among French manufacturers of electrical equipment. At the end of 1949, when contracts for the Nantes Station were tendered for, French firms being in the process of re-equipment were building mostly 50 to 60,000 kW units generally fed by two boilers running on superheated steam at 970° F. and 1,265 lbs. per sq. in. Manufacturers have gone a long way since that time. Today their standard product, for which they have got scores of orders, is a 115/125,000 kW hydrogen cooled turbo-generator, based on the unit system (one generating unit, one boiler). With reheat almost generalized, steam characteristics at the turbine throttle valve reach 1,004° F. and 1,806 lbs. per sq. in. Eight such units equip the new plants erected near Paris at Creil and Porcheville, and for an equivalent power the building and operation costs are 40 per cent lower than those of a station erected in 1949.

THE FRENCH UNION AS A BIG OIL PRODUCER

The French petroleum industry is fast expanding on every front. As regards the production of crude, until recently the development of the natural gas reserves of the Pyrenees was the main achievement resulting from exploration and prospection of underground resources in France itself. But drilling areas having expanded, especially in the southwest, oil has been struck near the locality of Laeq (320,000 tons in 1957), and also at Parentis near Bordeaux, where current production tops 1.5 million tons annually. Often, the principle of reciprocity in research proved true when, for instance, prospectors looking for potash struck oil in Alsace, or when oil drilling operators uncovered a new coal basin with promising reserves in the Jura mountains.

More promising are the discoveries which have been made in the Sahara desert, south of Algeria. Here, at Hassi Messaoud and Edjelé, big oilfields are in full process of equipment. Their reserves, it is estimated, are in the vicinity of one billion tons and an annual take of over 40 million tons should be feasible as early as 1960. The necessary pipe-lines are being laid down.

For the time being, however, the French oil industry depends essentially on imports of crude coming mainly from the Near East, where France has a share in the Iraq oil concessions. Fortunately, the French petroleum industry was in a position to expand its refining facilities quite substantially over the last few years. Thus, crude petroleum processed in the French refineries has now passed the mark of 27 million tons per year, more than three times the prewar figure.

The bulk of the refining operations and facilities are concentrated in two places: one by the Berre Laguna (on the Mediterranean seashore) and the other alongside the lower part of the Seine River, in Normandy. Other isolated facilities located at Dunkirk (north), Nantes, Pauillac (west coast) and

Frontignan (south) complete the system. The Mediterranean seaboard facilities are served by the port of Lavéra, the largest petroleum docks in Europe, which in addition to supplying imported crude to a local refinery, sends it through pipe-lines to the big refining plants at Berre and La Mède. Other interesting achievements are the production of high octane gasoline in Frontignan and the development of lubricating oils near Dunkirk (Courchelettes) and on the Lower Seine, in the vicinity of the huge refining facilities of Gonfreville, Port-Jérôme and Grand-Couronne.

In the transportation field, let us mention the construction of a pipeline between Le Havre and Paris, a project which serves the gasoline-hungry Parisians at less cost. Transportation by sea is also being taken care of with the addition of new 40,000-ton units to our tanker fleet. Last, but not least, the young petroleum chemical industry is growing rapidly through joint partnerships between oil companies and chemical concerns. The versatile detergents are among the most important products of that industry.

LONG DISTANCE TRANSPORT OF ENERGY

Transporting energy over long distances always arouses the mistrust of the economist, since it seems so clear that it would be better to use the energy where it is produced or else to produce it where it is to be consumed. But the truth is not so simple; some cheap energy sources are situated in regions of difficult access; others are suddenly discovered in peripheral areas. Sometimes the consuming centres are widely scattered and often the search for efficiency requires the production of power to be concentrated in a small number of very large units each serving a vast area.

In the field of electricity, for example, the long distance transport by very high tension lines enables the enormous water power of the Alps, the Central Massif and the Pyrenees to be distributed throughout France, and provides the necessary connections with the northern half of the country where electrical power is chiefly produced by fuel burning.

At the present time, this connecting network, the main arteries of which operate at 225,000 volts, is more than 11,000 miles (18,000 km.) long, compared with 6,000 miles (11,000 km.) in 1946. But the increase in the demand for power threatens to saturate it and at the present time the main lines, particularly between Savoy and Paris, are to be stepped up to 380,000 volts, which is the leading world standard. Whereas in other countries this transformation has required the conductors to be changed and the pylons to be modified, it is being carried out very cheaply in France, the main double arteries for 225,000 volts having been originally designed so as to take the new voltage simply by fitting twin cables in parallel.

The problem of long distance transport is of concern to another energy industry in France—the gas industry—first because considerable quantities of gas have become available in recent years in industrial centres which are situated on the periphery of the territory and which do not have sufficient subsidiary consuming industries in the same localities. This is particularly true of the large coke furnaces of Lorraine and the petroleum refineries in the Mediterranean and the mouth of the Seine. Furthermore, a large deposit of natural gas has been discovered at Lacq in the south-west part of the country—an area which has been largely agricultural hitherto.

To develop these sources of new gas, the construction of a large network of feeders has been embarked upon. For the moment the longest is the Saare-Lorraine-Paris feeder, of which some 430 miles (700 km.) of pipes each day bring 35 million cubic feet (1 million cubic metres) of producer gas to the Paris area, while serving en route some ten provincial towns. Another feeder which goes to Paris from the Rouen area carries residual gases from refineries. These feeders are in the process of being eclipsed by the Lacq feeder which already carries 18,000 million cubic feet (half a billion cubic metres) of natural gas a year to Toulouse and Bordeaux and which, after crossing the Garonne, is being extended to Nantes, Lyon and Paris.

We should finally mention the system of pipelines which has been constructed in France for transporting petroleum products: the double Le Havre-Paris pipeline; the NATO pipelines which cross France from one end to the other, from Saint-Nazaire and Marseille to Germany and Belgium.

These are economical because they do away with the empty return trip of barges, railway or road tankers. The

pipelines are extremely flexible systems of transport since the most varied liquids can be sent through the same pipe one after another, each pushing the one in front. Other advantages: the complete elimination of losses, extremely reduced maintenance cost, few staff and, finally, continuous use, cleaning being carried out without stopping circulation for a moment.

FRENCH RAILWAYS IN PRODUCTIVITY DRIVE

The French Railway System is one of those activities where productivity has increased by leaps and bounds in the postwar years, a result achieved in spite of the demands which passenger traffic often imposes on operating efficiency. First, human productivity, as expressed in terms of traffic units (passenger-miles and ton-miles) per labor unit (employee-hour) has increased from 50 in 1938 (60 in 1929) to 102 in 1956. Second, physical productivity, as expressed in terms of traffic units per ton of coal burnt (or fuel or power equivalent) has passed from 6,130 in 1929 to 5,240 in 1938 and to 8,904 in 1956. Furthermore, this tremendous gain in efficiency has been accompanied by sizable gains in speed and comfort.

Several factors, of course, have contributed to this overwhelming advance: one is the overall increase in traffic, although the 1929 record was not broken until 1951; another is the modernization of traction equipment, some features of which are: the introduction of more powerful locomotives, use of fuel-oil on certain types of engines, pooling of steam engines, increased use of Diesel switch engines, development of automobile railway cars and above all electric traction on new main lines. A third factor which deserves special comment is the advances made in the field of traffic management and handling of freight. Great pains have been taken since 1945 to redesign itineraries and schedules, expedite the flow of traffic, cut unnecessary stops and facilitate handling in general. More particularly, the large schemes undergone to concentrate and modernize the classification yards are there to show that no effort was spared in the drive for higher efficiency. But the effort was rewarding: through faster turnover of rolling stock and greater carloads, the "Société Nationale des Chemins de Fer" (S.N.C.F.) could move about 75 per cent more freight per mile of track in 1957 than before the war, with 32 per cent less rolling stock than in 1938.

A NEW TECHNIQUE FOR ELECTRIFICATION

The French National Railways, which in 1953 had already electrified 2,900 miles of their network, including in particular the Paris-Lyons, Paris-Hendaye, Paris-Toulouse-Nîmes and Paris-Le Mans trunk lines, on which more than 30% of their traffic circulates, have recently turned their attention to the electrification of quite a different section of their system: the intensive lines serving the eastern and northern regions of the country. They have embarked upon a programme which concerns the Lille-Bâle, Paris-Lille and Paris-Strasbourg main lines, noted essentially for the fact that they absorb the greatest density of goods traffic handled by S.N.C.F.

A new technique is employed here. So far the French Railways had used 750 or 1,500 volts direct current for electric traction and this method gave excellent results. It must, however, be admitted that it necessitated rather costly equipment for converting and distributing the current from the power mains right up to the locomotives. As a result of research and experiments carried out since the war, the S.N.C.F. has perfected a system using industrial current (alternating current, 50 periods) at the high tension of 25,000 volts. As may be seen below, this makes possible a substantial economy in respect of high-tension mains, sub-power-stations and contact equipment. The financial returns on electrification are, moreover, increased.

Trials made with the new method in the Annecy region since 1950 led the S.N.C.F. to adopt it for the North and East lines. The engineers were, however, faced at this stage with a difficult problem arising out of the very nature of the traffic to be handled in this area of heavy industry—the problem of drawing, through hilly country, entire goods trains of a weight far in excess of those met with in other regions.

The recent putting into service of the Lille-Bâle track has shown that engineers of the S.N.C.F. and engine builders have succeeded in designing locomotives which, though of equivalent weight, are capable of hauling far heavier loads than those formerly drawn by the locomotives running by other systems of traction.

THE NEW RIBBON RAIL

As long as the railroad was in the growing phase, it aimed at higher speeds and more power. Now that it has reached maturity, it concentrates mainly on higher productivity and lower operating costs. That is why all new projects embodying technical improvement, except those necessary for safety purposes, are authorized only if and when the company is satisfied that the investments which they necessitate will bring substantial profits.

Fortunately, modern processes and techniques often bring better service, higher safety and substantial savings, all in one package. A good example of this is provided by the recent findings of the SNCF research department on how to eliminate excessive wear on the rails.

What exactly is that new "ribbon" rail, which the public at large does not yet know of? It is a jointless track made up of welded strips half-a-mile long, fastened on the ties with elastic braces in such a way as to let the rail rest on grooved rubber soles. The problems which the ribbon rail solves or eliminates are as old as railroading itself: problems raised by the joints, those weak spots of the track; problems originating in vibrations which cause a special type of wear; problems posed by the braces which, on standard rails, must be fastened periodically at high cost of labour; problems of tie wear, etc. To each of these problems, the ribbon rail brings neat, novel and — above all — economical solutions. Engineers have figured that the adoption of the clickless ribbon rail, with the resulting absorption of vibrations, will double the life of the rails and ties. When, in addition, the drastic savings effected on maintenance labour are taken into consideration, the total economy amounts to two thirds of the expenses currently incurred in maintaining standard tracks. As to the improvement in comfort, it is necessary to have enjoyed a ride at high speed on one of the sections already equipped with ribbon rails, with their welded, half-a-mile long strips, to realize the notion. The smooth, clickless ride then enjoyed by the passenger stands in vivid contrast to the routine impressions of a normal railroad trip.

MASS PRODUCTION IN THE AIRCRAFT INDUSTRY

The production of the French aircraft industry is today giving the lie to the pessimists who, a few years ago, saw nothing in it but prototypes without a future. A fair number of those prototypes have now gone into large-scale production and for the first time since the war France has resumed the export of aircraft, a field in which she was once very active.

The aircraft now being produced in the largest quantities are military aircraft, particularly fighters. Prominent among these are the Dassault Mystère, a family of jet fighters derived in sequence. Their power units, such as the French Sncma Atar or the British-licensed Tay and Verdon, embody the latest technical refinements. Now mass produced, these machines are the basis of the French Air Force. Their performance, armament and manoeuvrability under all conditions make them first-rate weapons not only in France, but also internationally, and their value has been recognised by big N.A.T.O. orders placed for them.

The S.O. Vautour, a medium-weight twin-jet presented in three versions (all-weather fighter, light bomber and ground attacker) constitutes another of the essential elements of the Air-Force as envisaged by the General Staff. The Vautour is noteworthy not only for its brilliant performance and its operational qualities, but for the new materials and manufacturing techniques which are embodied in its design.

In the near future these types of planes will be supplemented by light interceptors complying adequately with the demands of modern air warfare—a high rate of climb and a combat speed largely supersonic in level flight. Included in this programme are the S.O. Trident, the Sncma Gerfaut, the S.E. Durandal, the Dassault Mirage, etc. These aircraft are the French fighters of to-morrow, and all have been designed for speeds ranging from Mach 1 to Mach 1.5. The same is true of the attacker types of aircraft largely represented by the S.E. Baroudeur, which has no undercarriage, but uses a trolley for take-off and lands on skids. Let us mention too the Leduc 22, the result of patient development work on the ram-jet engine, which embodies a revolutionary airframe and is several years in advance of future military aircraft now being developed.

since both in climb and normal flight it is expected to fly at twice the speed of sound.

On the civil side, the great star is undoubtedly the S.E. Caravelle. This brilliant medium-distance jet liner made its first flight at Toulouse on May 27, 1955. Since then it has been ordered by a score of French and foreign operators. It heralds a series of new ideas which facilitate very much its use on continental networks. Intended to carry 80 passengers at 480 m.p.h. it has a normal range of almost 2,000 miles.

The Hurel-Dubois, another newcomer, owes the secret of its performance to its long wing-span, a feature which enables it to carry twice the payload of an orthodox aircraft of the same power and makes possible a reduction of 30 per cent in cost per ton-mile. Many foreign countries have retained options on this machine, which is now being put into production.

THE MERCHANT FLEET

The French shipyards, which in the past have built a great many first-class liners, are now busy reconstructing and modernizing a commercial fleet which, during the war, suffered damage or total loss on two thirds of its units. Since the Liberation, France's shipyards have already built a total of 2,007,000 tons of merchant ships, including 300,000 in 1956 alone. With orders for another 2,483,000 tons, they rank 5th in the world for shipbuilding.

It is significant that these figures include all types of craft: ocean liners, freighters, tankers, coasters, trawlers, dredgers, tugboats and port craft of all descriptions. All of these vessels are made entirely in France and many of them include the most up-to-date power plants and boiler equipment, like, for example, those new super boilers which stand a pressure of 910 lb. per sq. in. and a superheating temperature of 905 degrees F., now in service on the more recent liners. Let us mention in this respect, the experiment which is now being conducted on a series of 850-ton coast vessels equipped with a new type of power plant composed of a gas turbine fed by a piston generator. This unit, for equal power, is between 13 and 25 per cent lighter and less bulky than the conventional Diesel units.

Generally speaking, all these new craft impart new and much better characteristics to the merchant fleet. With the 773,000 tons of new craft purchased abroad and part of the 1,176,000 tons of craft bought second hand, they make up a young fleet, larger than in 1938 (3.7 million tons now, against 2.7 then) and—most important—definitely more efficient because of its relatively greater capacity and speed.

THE IRON AND STEEL INDUSTRY

The renaissance of the French Iron and Steel Industry, which produced a record of 14 million tons of steel in 1957, and is heading for a capacity of 18 millions in 1961, involves all aspects of the industry from the modernization of the iron ore mines to the construction of the most powerful machine-tools in Europe. Other features of it are: more exhaustive processing of the ore, renovation of the blast furnaces, higher capacity and intensified specialization of the steel mills, mechanized handling, etc.

On the ore deposits, mechanical devices—such as the huge mechanical shovels jointly operated by the Micheville and Dilling companies and the mechanical loading apparatus which now replaces hand loading in most of the mines—have already raised the capacity of the Lorraine deposits by 60 per cent above prewar levels.

The blast furnaces, as old ones are having their faces lifted and new ones are born, are rapidly acquiring the latest features and compare favourably in loading capacities with the biggest furnaces in the world. The Rombar furnace, which produces 600 tons of pig-iron in a single day, is currently one of the best equipped in Europe. Higher capacities result in savings on labour costs which, in turn, are further reduced by the development of modern rolling mills (like the rod rolling mill at Jouef) and mechanized handling. Better performances are also obtained through the generalized use of oxygen and better blending of the batches.

Two gigantic rolling mill complexes constitute the most significant achievements of the postwar iron and steel industry. First, there is the continuous hot rolling train owned by Usinor at Denain; part of the coils which it produces are made into thin sheets in the cold rolling mill owned by the same company

at Montataire. The second complex is formed by the hot and cold rolling mills operated by Sollac at Hayange; stabs fifteen feet long and eight inches thick are fed into them and rolled in a few minutes to a length of 750 feet for a thickness of 4 to 8 hundredths of an inch. The trains are run by 1,000 electric motors and save 75 per cent on labour.

THE EXPANDING ALUMINIUM INDUSTRY

French production of aluminium, under good conditions of hydraulic power supply, is now averaging 160,000 metric tons per year, as compared with 45,000 tons at the outbreak of World War II. It ranks first in Western Europe and fourth in the world. Yet these 160,000 tons only represent 5 per cent of the world production which is estimated at roughly 3 million tons. But the French reserves of bauxite are still high (1,700,000 tons of ore were processed or exported in 1957) and the industry is at the very vanguard of progress as far as equipment is concerned. The limiting factor lies in the fact that aluminium production depends on the electric power available. Since 1939, both aluminium production and power supply have increased at roughly the same rate.

Thus a limited programme of expansion and concentration has been carried on. It was mainly implemented in the mill of Saint-Jean-de-Maurienne (Alps) where 116 electrolytic baths have been installed to run under a current of 100,000 amperes. These baths are among the most efficient in the world and make the mill able to produce 40,000 tons of metal per annum. Already, the large electrolytic rooms, which before the war used to require 50 men to handle one ton of aluminium, do not need at present more than 26 workers to produce the same amount. This explains in part the drop in the relative price of the metal since 1938.

A parallel advance has been made at the fabricating stage: in 1951 a plant unequalled in Europe for rolling and wire-drawing of large parts was installed at Issoire (Central France). Its equipment, similar to that of the iron and steel industry, includes a continuous rolling train which can produce metal plates weighing 2 tons. When running at full capacity, the mill handles 50,000 tons of metal annually and thus compares with the large British mills of Radger Stone and Falkirk. However, for this expanding industry, the main problem is to find inexpensive kilowatts. The cheapest for the time being seem to lie in the waters of the big African rivers. For this reason the first African foundry has been erected in 1956 by the French aluminium industry, at Edea, in the Cameroons. With its 218 baths, this plant is able to ship abroad 45,000 tons of metal each year.

ONE MILLION VEHICLES

The time has passed when France was the largest producer of automobiles in the world. This was in 1905 or 1906, when 4/5 of the New York taxicabs were Panhard cars, when the Darracqs, the Bayard-Clements, and the Rochet-Schneiders were assembled under French license in Germany, Britain, Italy and Switzerland, and when the first car designed and made in Great Britain, the Napier, was humbly introduced to the world as being of French inspiration. Nevertheless, the place now occupied by France in the world remains worthy of consideration since this country is the Big Fourth, outranked only by the United States-Canada complex, the United Kingdom and Germany. Since 1952, automotive production in France exceeds 500,000 vehicles annually, or twice the prewar peak production figure. And in 1957 it climbed close to one million. Notwithstanding unfavourable exchange rates, the fourth part of that production goes into exports.

The main feature of the French industry is its concentration, which is relatively heavy under European standards. Five car manufacturers make 98 percent of the passenger vehicles, while four of them produce 86 per cent of the industrial vehicles. Furthermore, each manufacturer limits himself to the construction of one model in each category, sometimes two, exceptionally three. In that respect, the change from the prewar period is striking, if one recalls that a man visiting the annual Paris car show in 1935 was offered no less than a hundred cars made by 48 French manufacturers. This recent process of concentration and specialization was naturally accompanied by intensified plant remodeling and equipment. Entirely new installations were constructed by Renault at Flins (near Paris) and by

Citroën at Rennes (Brittany), while Simca and Peugeot invested large sums in the procurement of more efficient machines, in the streamlining of their production schedules, in the setting up of faster and smoother flows of materials through the shops, etc.

MACHINE-TOOL INDUSTRY

Contrary to what might be expected, the basic concept of machine-tools has not changed much in fifty years, for they perform the same basic task, viz. operate tools; they belong to three different groups, whether their job is to carve chips off surfaces (milling) or abrade them or alter their shape. While, therefore, units of an entirely novel design are rare, machine-tools are being continuously improved in their details. This fast, progressive improvement follows a general trend to which each country brings its own individualistic touch.

One of the most striking features of the new machines is their simplicity as compared with the older types. The belts, pulleys, gears, levers and flywheels, unsparingly displayed in the past, tend to disappear while the driving gear, reduced to a minimum and electrified to a maximum, is centralized on a single panel showing all the necessary directions for the operation of the machine. At the same time, looks in general are given more consideration, for beauty is often the mere translation of the functional qualities of a machine. The progress made in that respect by the French industry in the last few years has been an object of admiration for the foreign visitors who value this aspect very much.

As to functional qualities, the trend is towards greater precision and less dead time, two goals often reached simultaneously. As far as precision is concerned, it is generally admitted that workmanship is twice as good as it was ten years ago; on the finishing machines, a degree of accuracy of one thousandth of a millimeter is not uncommon. As this is much less than the thickness of a hair cut in four, it is wise, when such high accuracy is wanted, to equip the machine with such mechanisms as calibrated gauges and work spindles or reading microscopes which facilitate the work set-up. In that respect, it seems fair to recall that France has been outstanding in the design and use of optical instruments and auto-calibrating devices.

The drive cutting dead time has led to the construction of entirely automatic machines—which truly behave like robots—and also to the design of a great number of accessory time-saving devices. Among the latter, we find the automatic feeding, clamping and ejecting devices which may be placed on the most diversified types of machines and, last but not least, the automatic transcribing devices which, in the last few years, have been used extensively on turret lathes, milling machines, etc. Along the same lines, we might mention other devices such as the speed selectors, which the operator can set in advance, while the machine is still running on a previous job and without interfering with it.

Generally speaking, the French machine-tool constructors apply their effort and ingenuity to reconcile efficiency, a factor which usually requires specialized machines, with versatility, a factor obtained in the so-called universal machines which may be used for many different jobs, but with less efficiency. A typically French solution to that problem has been the separation from the machine of the spindle and its driving shaft, then called operation unit. Thus, drilling units, milling units, etc., may be fitted in variable numbers on the same machine, and perform quite a number of different operations.

THE MECHANICAL GIANTS

Since 1945, on the hundreds of civil engineering projects set up for the construction or repair of roads, bridges, railways, air and sea ports, dams and tunnels, more and more specimens of a strange new fauna may be seen at work: they are called bulldozers, scrapers, draglines, loaders, graders, dumpers, etc.; thanks to them, civil engineering has ceased to require the huge armies of workers which it used to in the past. It seems fair to say that most of these machines were first designed in the U.S.A., but it should not be overlooked that many French inventions have contributed in the past to the general improvement of civil engineering equipment. Examples of such inventions are the steam roller first patented in 1859, the narrow gauge railway, the bucket excavator (invented by Couvreux at the

time the Suez Canal was being constructed), the mechanical shovel which dates from the construction tests of the Panama Canal, the tunneling shield developed by Brunel when excavating under the Thames, drilling machines used for the first time in the digging of the Mont-Cenis Tunnel (Alps), air tools, first employed in the foundation work of the Kehl and Salstack bridges, titan cranes employed to set heavy masonry blocks in place, plant for ultra-rapid concrete laying, electric and acoustic-sounding apparatus, etc.

But why invoke the past? French industry, catching up with its postwar lag is now producing civil engineering equipment of international class, which is often in the van of progress in Europe, if not in the world. One has only to go to the sites of some of the larger projects to obtain eye-witness evidence of the progress made in that field: to our harbours, to see 12 tons grab cranes capable of unloading 500 tons of ore an hour; to the Saint-Nazaire prefabricating shipyards, where jib cranes with a laden weight of nearly 500 tons and a height under the hook of 140 ft. lift 50 tons at a span of 25 metres; to Montelimar (Rhône Valley), to see draglines with a range of 120 ft., the first in Europe to have been equipped with 80-gallon buckets; to the Tignes dam, where still recently machinery of exceptional size was functioning (rock-breakers with 7 ft. openings, capable of treating 600 tons per hour, rotary crushers with 11 ft. openings, 7 ft. wide vibrating screens and sieves, and an automatic concrete plant with an output of 8,825 cubic ft. an hour); or to any other of the construction sites scattered all over the country, to find scrapers of from 16 to 26 ft., 650 to 800-gallon grabs, 90 to 140 horsepower caterpillar tractors, mobile concrete mixers delivering 3-ton batches at a time, and those famous concrete vibrators which have made France a leader in the field of agglomerated materials.

ELECTRONICS: THE INDUSTRY OF THE CENTURY

One hundred and fifty billion francs' turnover in 1956 and 55,000 persons employed—the electronics industry, the last-born of the great modern industries, is at the present time one of the most dynamic branches of French economy, with a rate of activity which regularly increases by 20-25% per year. Both its size and its separate identity become increasingly clear as it detaches itself from its older sister, the electrical engineering industry.

Roughly, it comprises four sectors: (1) Technical equipment (transmitters, transmitting stations, radars, radio control installations, etc.) which can only be used by technicians. (2) Electronic valves or "tubes" for transmitters, both transmitting and receiving. (3) Spare parts for electronic equipment. (4) Finally, equipment for the general public—radio and television receivers, electro-acoustic apparatus.

The distinguishing feature of the economy of this industry is the contrast between the comparatively small amount of capital required for equipment compared with the amount of money which must be spent on research and design. It is, in fact, a typical example of a research industry as is shown by the composition of the staff it employs: out of 55,000 workers, there are 10,000 technicians, of which 3,500 are engineers. This technical staff is at work in large laboratories (that of the Compagnie Générale de T.S.F. employs 1,200 people), since invention by a stroke of genius by a single man is no longer a feature of the present day. Hundreds of research workers have to be concentrated on single problem and may spend several years on it since electronics calls in so many diverse techniques that it is not unusual for the development stage of a new instrument to take three to five years.

Fortunately, the French electronic industry is in a very strong position. Its radars, radio-telephone links, electronic computers, communication equipment, broadcasting and television equipment, servo-mechanisms, electronic valves, transistors and components, have recently been adopted by public services and administrations in numerous countries.

NEW CHEMICAL PRODUCTS

Throughout France, a new and vigorous activity is pervading the field of chemicals; all phases of the industry are involved: from the basic mineral products, such as ammonia, chlorine, sulphuric acid, caustic soda, etc., whose consumption is still steadily growing, to the more recent and extremely dynamic development, such as plastics, petrochemicals or pharmaceuticals.

The nitrogen industry has thus raised its production capacity to 700,000 tons per annum as against 175,000 before the war. The sulphuric acid industry has renovated its equipment in order to produce 500,000 more tons of acid by the contact process. The production capacity of chlorine has grown from 75,000 tons to 200,000 tons per year. Sodium carbonate production has grown from 480,000 tons in 1938 to 780,000 tons in 1956, a result which required an increase of 170,000 tons in the capacity of the soda works. On the other hand, synthetic products (methanol, phenol, etc.) have grown by leaps and bounds.

In the new field of petrochemicals, the Lavéra plant has started on production of acetone and other solvents through the transformation of naphta. A few miles from that plant, at La Médéa and at Berre (Mediterranean seaboard), two units have been built for the production of propylene and acetone from refinery gas, while at Donges, men are busy constructing a plant which will produce cumene to be used later in the making of phenol and acetone. Let us also mention the ultra-modern plant, near Rouen (Normandy), which makes a "wetting" product, the "Teepol".

In the field of plastics, the major development is the commercial production of polyethylene—new in France—which is now made in Mazingarbe (northern France).

ARTIFICIAL AND SYNTHETIC FIBERS

Hardly sixty years have elapsed since the first rayon mill was opened by the Count of Chardonnet in Besançon, and it has been only forty years since artificial wool made its first appearance on the market. In that short period of time, artificial fibers acquired an outstanding position in the textile world, with an aggregate world production of 2.5 million tons in 1956. They are now surpassed only by cotton, leaving wool behind.

French production of artificial textiles followed the trend closely, in the last few years particularly. In 1930, France made 23,000 tons of artificial textiles, then representing 11.5 per cent of the world production. Thereafter, she lagged behind until her share dropped to 3.4 per cent in 1939. In 1956, with a capacity of 150,000 tons, she again raised her share of actual production to approximately 6 per cent of the world's output.

The rapid growth of the artificial fiber is due to many factors: reduction of the burden imposed by the necessity of importing natural fibers; possibility of continuous improvement through applied research; greater stability of prices and reliability of sources, as contrasted with the wild movements which often upset the natural fiber markets; lastly, steadily decreasing costs and prices, as a result of the progressive improvement of the manufacturing techniques.

The same may be said of synthetic fibers whose production, practically nil before the war, is now developing at a brisk pace. Where Nylon is concerned—this fiber being manufactured at Lyon-Vaise and Saint-Fons—or Vynilic textiles (rhovil and thermovyl) made in the Meuse Valley, production capacities have long surpassed the best estimates made in 1947. Meanwhile, researchers are busy developing still more products. In the cities of Marseille and Valence, a new synthetic fiber derived from a plastic, itself made from castor oil, the "rilsan", is now being produced commercially in the form of filament yarn and staple fiber and is currently making a very favourable impression on the foreign markets.

EXPANDING AGRICULTURE

After a century and a half of industrial development, France is still a predominantly agricultural country. Forty-seven per cent of the people live in rural areas, and the active agricultural population—which numbers six million—represents one third of the gainfully employed population. Moreover, although the use of farm machinery, the practice of selection, and a certain regional specialization have extensively transformed the methods of cultivation, small and medium-sized farms still predominate. Out of a total of 2,300,000 farms, there are 1,300,000 of less than 25 acres and 900,000 of less than 125 acres. Since these account altogether for 70 per cent of the cultivated land, large estates occupy a relatively small area.

It should be noted also that 66 per cent of the farms, large and small, covering 55 per cent of the agricultural re-

gions, are worked by their owners. To a large extent, therefore, France's agricultural structure is dominated by the family farm. This system benefits from the know-how and experience gained through intensive cultivation of the land. But it is handicapped by an extremely partitioned soil and by the fact that it has more manpower than capital at its disposal.

In the last few years, however, French agriculture has shown a marked determination to remedy its lag in technical development, which resulted from a crippling protectionist system, further aggravated by two world wars and a severe economic crisis. France now has more than 500,000 tractors, compared with 30,000 before the war. She is manufacturing twice as much farm equipment and has greatly improved the efficiency of her machines. French farms are utilizing 68 per cent more nitrogen fertilizers, 70 per cent more phosphoric acid and 100 per cent more potash than in 1938. Other signs of this wide-scale transformation are the reparation of almost 6 million acres of land, the supplying of potable water to 10,500 rural communes and the installation of 60,000 miles of electric power lines in rural areas.

Such modern techniques as artificial insemination — now practised in 75 centres —, the system of partitioned grass-lands for livestock, the hybridization of corn, or scientific soil analysis are being widely applied. The processing and storage of agricultural products is being developed: France is building bigger and better grain silos, slaughterhouses and meat canneries, dairies, sugar refineries, fruit stations cooperative wine cellars, and cold storage plants and trains. Often a whole region is entirely transformed. The Camargue, for example, was literally transfigured by the planting of rice fields. Projects now under way aim at ridding the exclusively grape-growing region of Bas-Languedoc of the problems arising from a single-crop system. In all, some three and one half billion dollars were invested in the agricultural sector of the French economy between 1946 and 1955. Already results can be seen in a big increase of the exports, which with average weather exceed 100 million bushels of wheat per year, 2 million tons of meat and dairy products and 300,000 tons of sugar.

HIGHEST CEREAL YIELDS IN THE WORLD

People often deplore the relatively low productivity of our agriculture, when they compare it with that of neighboring countries. This is overlooking the diversity of the French soil and climate and deliberately ignoring the fact that, for equal conditions, France obtains yields at least equal to, or better, than those achieved by her neighbors, whatever the extent of their farm development.

In the case of wheat, for example, it is no secret for the geographers that Western European yields decrease in fairly regular circles having their center near the Rhine delta. Therefore, in the Nord Department and in the Paris area (northeastern France), outputs as good as any in Europe are frequent, while in the south, wheat yields are close to the lowest obtained in the Mediterranean zone. The national output per acre, equal to 33 U.S. bushels/acre (average 1951-1957), is but an average figure covering the whole country; it includes yields of 56.5 bu. per acre in the Nord Department as well as yields of 13 bu./acre in the Lot Department.

Better still, whereas the Netherlands produce 54 bu./acre over 225,000 acres, Denmark 55.9 bu./acre over 210,000 acres and Belgium 49.1 bu./acre over 430,000 acres, the four French Departments of Nord, Pas-de-Calais, Oise and Seine-et-Marne average between them 55 bu./acre over 1 million acres. And we do not believe there is any country in Europe or even in the world which can boast an output of 49.1 bu./acre over 3 million acres, as is the case for a group of twelve departments lying between the Belgian border and the Loire river. Even the less productive regions of France are not doing so badly as compared to other countries with a similar climate, for the yield of 16.7 bushels of wheat per acre obtained over 2 million acres in the Toulouse-Marseille-Montpellier region is higher than the yields of Portugal (11.6 bu./acre over 1.6 million acres), Spain (12 bu./acre over 10 million acres) or Greece (14.1 bu./acre over 2.1 million acres).

AGRICULTURAL RESEARCH RAISES FARM PRODUCTIVITY

Like any other type of applied research, agricultural research seeks to raise farm productivity in at least three ways:

either it aims at a direct increase in production, or it tries to save on the magnitude of production factors involved (fertilizers, spraying, etc.), or, where both must increase simultaneously, it seeks a proportionately greater increase in production. The benefits thus extended to agriculture by research may be illustrated by four current examples. A direct increase in production occurs when, for instance, plant geneticists create a new variety endowed at the same time with a better adaptability to physical environment and greater resistance to disease. This is the case of a new wheat variety called "Etoile de Choisy", the latest creation combines yield properties slightly better than those of the famous "Vilmorin 27", "Marival" and "Yga" versions, with an extreme earliness which makes it practically immune to the black rust.

Considerable savings in the factors involved in farm production have also been made in some instances. The wine growers recently became aware of this, when an Agricultural Advice Service extended to them the new findings of a team of plant pathologists and bioclimatologists on the biology of mildew: as a result of this painstaking study, the farmers may now spray their crops as and when predetermined conditions prompt them to do so; in the past, they had to use spray profusely and at random so as to be on the safe side in case of an aggression of the pest. In the field of animal husbandry, research also spells economy when, by systematically controlling diets and selecting feeds — which the Institut National has been doing for hogs in the last five years — it raises the yield properties of a strain, viz. makes the animal require less feed per pound of milk or meat produced.

Research still pays, even when it requires a rather delicate and costly technique such as the sanitary pre-selection of potato plants. Since the war, pre-selected potato plants have become increasingly popular in France (annual production around 400,000 tons), as they yield 20 per cent more than first breeding plants and 40 per cent more than second breeding plants.

PUBLIC WORKS ABROAD

French engineers have contributed methods as well as equipment in the whole field of public works: processes for shoring up earth, for protection against gas, and for water drainage, devices for track-laying, soil freezing, etc. Nor should we forget the part played by them in the invention of hydraulic binders, in the development of large span arches and in the creation of reinforced concrete a century ago and prestressed concrete more recently, both invented and perfected in France and since then adopted throughout the world.

Reinforced concrete has in itself enabled French builders to set up an impressive array of world records, ranging notably from the 1911 bridge across the Tiber in Rome to the 1951 hangar at Marseilles airport. This latter, which is 62 feet high, has an open width of 325 feet, the self-supporting parabolic arch having a span of 330 feet and a weight of 8,800 tons.

The technical skill of French public works contractors has resulted in their services being called upon by many foreign countries. The old examples are all well known: the Suez Canal; the many ports such as Rosario, Bahia, Rio Grande, Trieste, Piraeus, Istanbul, Pernambuco, Antwerp, Valencia, Alexandria, Genoa, Casablanca, Tunis, Montevideo and a host of others; the Gaillon bridge in the bay of Rio; the Ghent and Corinth canals; roads in Europe and South America; and thousands of miles of railways in China, Chile, Yugoslavia, Syria, Uruguay, Spain, Argentine, Brazil and Italy.

The more recent works are so numerous that we shall mainly confine ourselves to the period 1953-1955 — and even then we can but quote them hurriedly. There are, for example, dams and hydroelectric power stations and irrigation works in Turkey (Demirkopru and Kemer), Colombia (Rio Anchicaya), Uruguay (Rio Negro), Greece (Louros and Megdova), Java, the Lebanon (Nahr Ibrahim), Brazil (Salto Grande, Limoeiro, Cachoeira de Funil, Macabu and Tombos), Portuguese Africa, Ireland, Egypt (Assouan), Iraq (Dokan), Iran (Sefid Roud and Kharaj) and Australia (Tumut River); ports in Colombia (Santa Marta), Ceylon (Colombo), Ecuador, Tangiers, Venezuela (Maracaibo), Turkey (Izmir) and Yemen (Moka); roads in Venezuela, Pakistan and Iraq; underground railways in Istanbul and Rio de Janeiro; airfields and airports

THE EMPLOYMENT PROBLEM IN JAPAN IN NEXT TEN YEARS

By Tokijiro Minoguchi

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When we treat the employment problem in next ten years in Japan we must estimate how will develop in that period our population, especially our labour-force population that is the population which has ability and will to work.

Recent Japanese population statistics show that while the birth rate had tended to fall very rapidly from 34.35 per thousand in 1920-1925 to 19 per thousand on the one hand, the death rate also at the same time had tended to fall very rapidly from 21.23 per thousand in 1920-1925 to 8.5 per thousand in 1949 on the other hand, and that as a result of it not only the natural increase rate had remained on the same high level, but the absolute number of yearly natural increase had raised very significantly from 0.6-0.7 million in 1920-1925 to 1.18 million in 1950-1955 because the size of total population on which the rate of yearly natural increase is calculated had grown meanwhile by 39 million that is 50 per cent.

However such movement in both birth and death rate will have to bring certain effects on the future development in population in Japan, as the past experiences in population movement in more developed countries such as Great Britain, Germany and United States of America have hitherto shown. Since falling birth and death rate implies lesser birth and longer living, when both birth and death rate continues to fall the proportion of older aged population will be more and more larger with their fall and as a result of it the age composition of population will shift from that in which the number of population decreases with the rise in age, as seen in the former times of high rate of both birth and death to that in which the number of population increases with the rise in age, so that the proportion of younger aged population will continue to fall and in place of it at first the proportion of adult, so-called "productive age"—15-60 years old—population and then that of old aged population will continue to grow till as a result of such growth the natural increase of population will slow down and then stop, because such increasing proportion of old aged population will cause further decline in birth rate in consequence of lesser ability to give birth and at the same time will bring increase in death rate.

According to the estimate of the Japanese future population made by the Institute for Population Problem Research the absolute number of yearly population increase in Japan will tend to decrease progressively: in 1953-1955 the population will increase in yearly average by one million and from 87 million to 89 million; in 1955-1965 it will increase in yearly average by 0.8 million and from 89 million to 97 million; in 1955-1975 it will increase in yearly average by 0.6 million and from 97 million to 103 million; in 1975-1985 it will increase by 0.6 million and from 103 million to 108 million; in 1985-1995 it will cease to increase; and thenceforth it will tend to decrease.

in Ceylon and Turkey; water and drainage systems in Colombo, Mozambique, Baghdad and in New Zealand; 485 irrigation wells in India; the University of Karachi in Pakistan; a tunnel (Derbend-I-Khan) in Iraq; 400 miles of high and low tension electricity lines in Greece; the modernisation of the Suez Canal; the development projects for the Japanese island of Hokkaido, etc.

We should not even be straying too far from the point, if we also spoke of the dozens of mines, cement works, steel plants and refineries equipped by French firms throughout the world. Let us mention at least the fact that the steel centres of Paz del Rio (Colombia) and Chimbote (Peru)—the first of which has been opened in 1954 and the second at the end of 1956—have been designed by French engineers and fitted out entirely with French equipment.

(End)

However this fact does not imply that the increase in labour-force population which has ability and will to work will slow down in the next ten years. For as above explained, when both birth and death rate continues to fall, at least in its earlier stage in place of the proportion of younger population that of adult, so-called "productive age" population will grow and in consequence of it the latter population will grow in larger rate as the total population. According to the above mentioned estimate by the Institute for Population Problem Research, the "productive age" population will increase in 1953-1955 in yearly average by 0.98 million and from 50.4 million to 52.2 million, in 1955-1960 in yearly average by 1.08 million and from 52.2 million to 57.6 million, in 1960-1965 in yearly average by 1.22 million and from 57.6 million to 63.7 million. Only from this time the increase in "productive age" population also will slow down. Its yearly average increase amounts to in 1965-1975 0.61 million, in 1975-1985 only 0.18 million. This fact implies that the increase in labour-force population in Japan in yearly average amounts to 0.58 million in 1955-1960 and 0.65 million in 1960-1965 against 0.53 million in 1954, and that in these next ten years the labour-force population will grow most rapidly.

* * *

Now the question which we must answer here in treating the employment problem in next ten years in Japan is how this in next ten years rapidly growing labour-force population will be employed. To answer this question it is necessary to investigate how hitherto in Japan the rapidly grown labour-force population has been employed.

According to the Japanese population censuses, during 68 years from 1872 to 1940 while the total population had increased from 35 million to 73 million and the occupied population also had grown from 17 million to 32.5 million, the population occupied in agriculture had remained almost stationary (14.5 million in 1872, 14.4 million in 1940) on the one hand, the population occupied in manufacture and mining had increased from 0.83 million to 8.72 million and the population occupied in so-called "service industries" including commerce, transport, liberal profession and public services had increased from 0.17 million to 4.48 million on the other hand. And as a result of it, while the proportion of the population occupied in agriculture had lowered from 83.7 per cent to 44.3 per cent, that of the population occupied in manufacture and mining had risen from 4.8 per cent to 27.0 per cent and that of the population occupied in "service industries" had also risen from 10.2 per cent to 28.8 per cent. It follows from this that, of the total occupied population which had increased during 1872-1940, 7.9 million that is 51 per cent had increased in manufacture and mining and 4.3 million that is 49.0 per cent had increased in "service industries".

It may be said that it is a cause and a result of the increase in productivity of labour caused by the development in division of labour and the rise in the level of real income per head that when the occupied population had increased with the increase in the total population, the industrial composition of the occupied population had in this way shifted from that in which the population occupied in agriculture constituted a greater part of the occupied population to that in which the proportion of the population occupied in manufacture and mining and then that of the population occupied in "service industries" is larger.

It is a well known fact that division of labour which is a fundamental principle of modern production economy increases productivity of labour. However in order to raise productivity of labour by means of realizing the advantage of division of labour, it is necessary that demand for any particular product is not only massive and uniform but also stable and lasting. Because when the demand for that product is not massive and

uniform any specialized man or machine, apparatus and plant etc. will not be used gainfully. Then because when the demand for that product is fluctuating and not stable, any specialized man or machine, apparatus and plant etc. will not be used all the time to the full. Lastly because when the demand for the product, even if not only massive and uniform, but stable, not lasting and for short time, any man or machine, apparatus and plant etc. will be unused during its life time. In these cases not the advantage but the disadvantage of division of labour will be realized.

Now in order to raise productivity of labour and level of real income per head by means of realizing the advantage of division of labour which depends on development in such massive, uniform, stable and lasting demand, it is necessary, as Adam Smith indicated, that the extent of market is large. The larger the market, the more the advantage of division of labour is realized, and by means of it the more the output and real income per head increases. Needless to say, it is evident that it is necessary to develop transport, commerce and finance to enlarge market. The fact that of the industrial population the proportion of the population occupied in transport, commerce, and finance had grown with the increase in industrial population in Japan may be said in this sense to be a cause for the rise in productivity of labour and in real income per head.

However, on the other hand, the above mentioned shift in the industrial composition of population may be said to be an effect of the rise in productivity of labour and in real income per head. It is a well known fact that in consequence of less elasticity in the demand for agricultural product, as when the real income increases it does not increase in proportion to it, so when the real income decreases it does not decrease in proportion to it. As a result of this fact, when the real income increases, in place of demand for agricultural product, demand for manufactured goods, such as clothes, furniture, automobile and house etc. and then demand for services of education, recreation, journey and sanitation etc. increases. Therefore when productivity of labour and real income per head increases, while the proportion of the population occupied in agriculture will tend to decrease relatively on the one hand, the proportion of the population occupied in manufacture and services of commerce, finance, transport and liberal profession will tend to increase relatively.

Now in regard to the relation between the development in market and the shift in the industrial composition of population in Japan, during 1872-1920 with the development in railway and other internal transport facilities and internal commerce, the national market had been gradually unified and the advantage of national division of labour had been realized more and more. And as a result of such development, while the proportion of the population occupied in agriculture had decreased from 83.7 per cent to 53.6 per cent, that of the population occupied in manufacture and mining had increased from 4.8 per cent to 20.7 per cent, and that of the population occupied in "service industries" which includes commerce, finance, transport and liberal profession etc. also had increased from 10.1 per cent to 25.8 per cent. But it is till about this year that in Japan the productivity of labour and the real income per head had increased almost only by means of realizing the advantage of division of labour depended on unification of national market. Thenceforth we may say that by means of realizing the advantage of international division of labour depended on the development in foreign trade the productivity of labour and the real income per head had further increased and in consequence of it till 1940, while the proportion of the population occupied in agriculture had declined to 44.0 per cent, that of the population occupied in manufacture and mining had risen to 26.1 per cent and that of the population occupied in "service industries" also had risen to 29.9 per cent. This argument had been proved by the fact that in times immediately after the last War when our foreign trade had almost stopped, the real income per head and the industrial composition of population in Japan had fallen back to those in 1920 and that thenceforth with recovery of our foreign trade the real income per head and the industrial composition of population in Japan had recovered.

If we compare the result of the population census made in 1947, the year immediately after the last War with the result that made in 1940, we find that during these years not

only the population occupied in manufacture and mining had shown almost no change (8.69 million in 1947 against 8.73 million in 1940) but the population occupied in "service industries" had decreased from 9.45 million to 7.65 million that is by 1.80 million, the population occupied in agriculture had increased from 14.3 million to 17.65 million that is by 3.35 million, and as a result of such abnormal change, while the proportion of the population occupied in agriculture had risen to 53.4 per cent, that of the population occupied in manufacture and mining had fallen to 22.3 per cent and that of the population occupied in "service industries" had also fallen to 24.3 per cent. This industrial composition of population in 1947 is nearly the same as that in 1920.

However the industrial composition of population in 1940 had been recovered already till 1955. According to the results of population censuses, during 1947-1955, while the population occupied in agriculture had decreased to 16.16 million that is by 1.49 million, the population occupied in manufacture and mining had increased to 9.32 million that is by 0.63 million and the population occupied in "service industries" had also increased to 13.76 million that is by 6.11 million, and as a result of it, while the proportion of the population occupied in agriculture had fallen to 40.1 per cent, that of the population occupied in manufacture and mining had risen to 23.8 per cent and that of the population occupied in "service industries" had also risen to 35.2 per cent.

* * *

It follows from these above mentioned facts that during next ten years in Japan in what industries will be employed the labour-force population which will grow most significantly in such times will mainly depend on how large will be the development in our foreign trade.

When we try to guess how large will be the development in our foreign trade during next ten years, we must firstly give consideration to the constant tendency of gold as an international money to concentrate on United States of America. Because as a result of the fact that in consequence of continuous surplus of exports of United States of America since the beginning of the Twentieth Century the gold holdings of this country had amounted to 25 billion dollars that is 90 per cent of the total gold holdings in the world in 1941, the multilateral trade which had been ruling in times before the last War in the world had become impossible and the bilateral trade had become ruling in times after the last War. It is an obvious fact that the amount of foreign trade in case of bilateral trade is significantly smaller than that in case of multilateral trade. Because in case of bilateral trade, unlike in case of multilateral trade, any foreign exchange which any export country had received for its exports from any import country can not be used for any of its imports from any other country than that of the import country, so that exports and imports must be balanced between any two trading countries. Needless to say, the International Monetary Fund and the International Bank for Recovery and Development had been established for the purpose of compensating such defects of bilateral trade. But at least till today these organisations have failed to attain this purpose satisfactorily.

The second, but more important fact to which we must give consideration when we try to guess how large will be the development in our foreign trade during next ten years, is the lack of our export market. One of the most important causes for this lack of our export market is the loss of our export market in Communist China. According to statistics, our exports destined for the territory of the present communist China in 1939 amounted to about 700 million dollars that is about 40 per cent of the total amount of our exports in the same year. But this fact does not necessarily imply that, as many men in Japan believe, as soon as our trade with the communist China has become free our exports destined for this country will amount to the same sum as that in 1939. As the fact that not only the amount of our exports destined for the territory of the present communist China had begun to increase since 1931, but the districts for which our exports were destined in 1939 were almost only Manchuria and north China, especially the former proves, our exports destined for these districts in such big amount in 1939 was evidently the result of our big investment of capital made in Manchuria and partly in north China and of the consumption in big amount

JAPAN'S FOREIGN POLICY

The Foreign Office issued its second "Blue Book" ("Recent Trends in Japan's Foreign Policy" in the Japanese language: 181 pages) on Japan's foreign relations in the latter half of 1957—from July to December. The first "Blue Book" was released in September, last year. The following is an excerpt from Chapter II on "The Basic Position of Japan's Foreign Policy," which is sub-divided into three subjects—(1) correlation on the three principles of foreign policy, (2) Japan's position in the U.N. and (3) promotion of economic diplomacy.

Correlation of the Three Principles of Foreign Policy

In the first issue of Blue Book the three principles of Japan's foreign policy were expounded but doubts were raised if these principles did not contradict with each other and that some criticisms were voiced to say that it would be impossible to put them into practice. In answer to these doubts and criticisms, additional explanations will be given on the meaning of these three principles and on their mutual relationship.

Japan's national policy rests on the establishment and maintenance of peace based on freedom and justice. The fundamental spirit of Japan's foreign policy is to promote a

made by many Japanese in these districts. Therefore so far as the present communist China does not invest capital at least in the same amount, we can not expect our exports destined for the communist China in same amount as in 1939. This argument is proved by the fact that our exports destined for the communist China which have been bargained between Japan and this country in recent years have amounted to only 84 million dollars that is 12 per cent of the amount of our exports destined for the territory of the present communist China in 1939.

Needless to say, this fact does not necessarily imply that we can not expect our exports destined for the communist China in considerable amount in the future also. Oriental countries including the communist China which had been most important markets for our exports in times before the last War have not sufficient purchasing power to import our exports in considerable amount, because in these countries in consequence of less prevalence of division of labour their productivity of labour and their income per head is very low. Nevertheless it is also a doubtless fact that in almost all these countries there has been already the endeavour to develop their productive power on the so-called mercantilistic thought, as seen in earlier times of industrialisation in almost all developed countries in the world. If such endeavour in these countries had brought forth sufficiently much effect, we could expect sufficiently large markets for our exports in these countries, because in such case there would be such rise in their productivity of labour and their real income per head as seen in the past times in all developed countries including Japan. However since such endeavour to develop their productive power naturally could bring forth sufficiently much effect only after a lapse of a considerable period of time as proved by the experiences in all developed countries, at least during next ten years when, as stated, the labour-force population will increase most significantly in Japan we can not expect sufficiently large markets for our exports in these countries.

Moreover the development in productive power in these countries does not necessarily imply the increase in the amount of our exports destined for these countries. Since the development in productive power requires the sufficient supply of machine, instrument, apparatus, car, automobile and chemical fertilizer etc. but as a rule the industries which produce these productive goods develop in considerable degree only after the industrialisation in that country has reached a fairly high stage, these countries which now stand on the earliest stage of industrialisation must import these productive goods at the sacrifice of consumption goods, of which the major part of our exports hitherto has consisted. This fact means for Japan the decrease in the amount of the export of our consumption goods on the one hand, and the severe competition in these markets with Germany, Great Britain and other countries which are superior to Japan in these productive goods industries on the other hand.

diplomacy for peace, achieve international justice and establish democracy in an international society.

The three fundamental principles—"Support for the United Nations," "Co-operation with the nations of the free world," and "Maintenance of Japan's position as an Asian nation"—are merely the three major manifestations of this basic spirit in diplomatic activities.

The United Nations, as its Charter indicates, is an international organization whose purposes are to maintain international peace and security; attain settlement of international disputes based on peace and justice; and take measures to strengthen world peace by developing friendly relations among nations. These purposes are in full agreement with the fundamental goals of Japan's foreign policy stated above. Japan, therefore, shall regulate its international relations in accordance with the spirit of the United Nations and shall strive to help the U.N. raise its prestige, strengthen its activities and advance toward the attainment of its task.

Regrettably, however, it must be recognized, as a realistic fact of international politics, that despite its lofty aims, the United Nations has been unable to fully achieve the expected goals. Under these circumstances, Japan, while pursuing the ideals of the U.N., on the one hand, shall, on the other hand, strengthen its cooperation with the free democratic nations that share this country's objective of establishing a democracy based on freedom and justice and shall thereby preserve the security of Japan as well as contribute to the maintenance of world peace.

Needless to say, the most vital and urgent problem for Japan, striving in this manner to establish world peace, is to secure peace in Asia. And, in order to bring such peace and prosperity to Asia, it is necessary that the Asian nations exert joint efforts toward that end.

Japan is a member of Asian nations, and Asia is bound to Japan by close geographical, historical, cultural and spiritual ties. Japan, therefore, has deep sympathy for the problems faced by various Asian countries. As an Asian nation Japan will always extend its hand of cooperation whenever requested and is ready to contribute its humble share to the realization of freedom, justice and prosperity in this region. At the same time, Japan will try its best to clarify Asia's position in international society, strive towards improving the status of Asia and hope that Asia will in this way secure peace for itself and become a vital element in the maintenance of world peace.

The three principles of Japan's foreign policy do not contradict with each other in the least. They are connected by one fundamental spirit—that of maintaining peace by establishing a democracy based on freedom and justice on an equal basis in the whole of international society, and to achieve its own security and development in such a world peace.

In the realistic state of international politics, it must, however, be recognized that there will arise occasions when these very three principles cannot be applied literally. Two problems should be pointed out in this connection: the anti-colonial movement in colonial or former colonial countries in Asia; and the issues concerning the so-called "non-committed nations" in Asia.

In respect to the first problem, Japan has sufficient understanding of such anti-colonial movements. From the standpoint of freedom and justice, Japan hopes that its aims will be attained as far as circumstances permit, provided that just and pacific means are employed in achieving its ends.

In respect to the second problem, although their position differs from that of this country, Japan can understand it in view of the special circumstances of those nations. However, as the difference of views and mutual understanding between these Asian nations and the free nations may become an obstacle to the peace and prosperity of Asia, Japan would be willing to devote its efforts toward promoting mutual understanding.

As long as the fundamental spirit of Japan's foreign policy, stated in the beginning, is upheld thoroughly in this manner, there cannot be an iota of doubt that Japan's foreign policy can move forward on the basis of a single and consistent basis.

Japan's Position in the UN

In carrying out the principle of "support for the United Nations," Japan has pursued the following positions:

Firstly, Japan has striven to show the greatest possible interest in the United Nations by adopting a positive attitude to all the U.N. problems in the political, economic, social, cultural and humanistic fields, keeping in mind that the United Nations is the greatest forum for the exchange of views among the nations of the world. Membership in the United Nations must inevitably be accompanied by a positive contribution to the international society as a member of the international family of nations.

Joining the United Nations becomes meaningless without this intention of making such a positive contribution. Japan which has joined the United Nations with that renewed determination is duty bound to actually demonstrate its zeal before the world. Since the United Nations is the only and greatest forum which takes up all the problems of the world, every Member State must take a positive part in all the discussions of its problems and must also contribute constructive efforts for their solution with an attitude of understanding and sympathy. This is the very position on which Japan has stood ever since it has become a member of the United Nations.

Secondly, Japan through the United Nations has striven to make this country's position widely recognized throughout the world. United Nations is a melting-pot of large and small countries, and as the races and languages differ, it embraces the divergent national sentiments, ideologies and positions. This diverse character of the United Nations should be respected and it is incumbent upon all the countries to meet various problems with understanding and sympathy, keeping in mind the diverse character of this organization.

While meeting the problems of the world on the one hand with this attitude, it is necessary for Japan to seek a clear understanding of its position and tenets by the nations of the world. It is only too clear that in this age any tenet would be difficult of achievement if it did not obtain the support of international opinion. In that sense, the United Nations is the most ideal place for getting the world to recognize Japan's position and tenets and to win the support of international opinion. Japan has always been acting from such a standpoint.

And, finally, in the settlement of concrete problems, Japan has striven to act in accordance with the principles of this country's foreign policy of "cooperation with the free nations of the world" and "maintenance of Japan's position as an Asian nation." As long as Japan's activities in the United Nations constitute an important phase of this country's diplomatic activities, it is only natural that these principles are reflected in its activities at the United Nations. Japan has thus displayed sympathy and understanding to the Afro-Asian nations as a member of the AA-group and at the same time has sought cooperation with the western countries. And, in accordance with the aims and principles of the UN Charter, Japan has at all times considered fair and just as well as constructive proposals for the settlement of problems and used its good offices in persuading the countries involved. As a result, Japan has won trust of both West European countries as well as the AA-group nations and improved Japan's international position through the United Nations.

Promotion of Economic Diplomacy

For Japan, which possesses a huge population in a small area and is dependent on foreign countries for large quantities of its food supplies and most of its vital raw materials, it need not be emphasized that trade is life-and-death importance in the maintenance and development of its economy. The pressing problem for the development of Japan's trade is that greater opportunities for the international interflow of goods and technique through free competition be provided Japan which possesses advanced technology, necessary labor and a highly developed industry.

A look at the actual international trade situation shows, however, that with a few exceptions, all countries in the world are carrying out exchange controls because of a shortage of foreign currency. At the same time, they have established artificial obstacles such as high tariffs and import allocations in response to demands for the protection and the development

of domestic industries and the governments exercise direct and indirect control of trade. With the exception of those countries belonging to the Organization for European Economic Cooperation (OEEC), the liberalization of world trade in the postwar period has been lagging.

The government is making utmost efforts to remove the trade barriers, and it should be pointed out that along with bilateral negotiations, it is an important measure of the postwar economic diplomacy to seek an improvement in Japan's trade conditions based on a multilateral basis through international organs such as the General Agreement on Tariffs and Trade.

Also, the conclusion of trade and navigation treaties is necessary for placing the exchange of persons, goods, technique and capital on a stable basis, while the trade payments arrangements concluded are playing a big role in promoting commercial transactions on a realistic basis.

Since the recent trend is for governments to participate in various private transactions which involve international bidding on economic development projects of many countries, it becomes increasingly necessary, because of the huge sum and complicated payment terms, for the Japanese Government to give them assistance through indirect negotiations with the government of the other country. Further, as to movements to restrict imports which come to the fore as a result of the sudden increase in Japanese products or claims based on unfair competition, foreign governments tend to take up such matters directly, entrusting their solution to diplomatic negotiations

REPORTS FROM CHINA

1958 Crops—The People's Daily in Peking reported that China this year will reap a record harvest of wheat, barley, rape and leguminous plants. About one-fourth of all the provinces will gather from 80%-100% more wheat than last year. Another third expect an increase of 30%-50% and the remainder an increase of 15%-30%. A high per-hectare yield is expected on some 6.67 million hectares of land, with as much as 7.5 tons or more wheat to the hectare in some places. The harvesting of winter wheat has already been done in some areas in South China. In the major wheat-producing areas of the Yangtze and Yellow river valleys, harvesting will begin in June. The Ministry of Agriculture has called on all localities to maintain continued vigilance against insect pests and plant diseases which might damage the crops. Some 33.34 million hectares of land in China were sown to wheat and barley.

Land Reclamation—130,000 hectares of farmland have been reclaimed in Sinkiang since the beginning of the year. This equals the total area reclaimed in Sinkiang in 1956 and 1957. It is expected that 330,000 hectares of new land will be opened before the end of this year. Sinkiang's land reclamation this year is opening new land in the Tarim and Manass river basins. The land there is flat and fertile, and can be planted the year it is reclaimed. 20,000 soldiers have worked in these river basins since January. They reclaimed land and set up farms at the same time. Cotton and maize have been sown on some of the farms, and it is planned that more than 40 such farms will be established both to the south and north of the Tienshan Mountain. Sinkiang has vast tracts of land. The area accounts for one-sixth of the nation's total area. 6.6 million hectares are reclaimable to the north and south of the Tienshan Mountain in Sinkiang. The climate conditions of the area are favourable for cotton cultivation. In Chinghai, 666,000 hectares of wasteland will be claimed during 1958-62. Preliminary surveys show that there are one million hectares of arable wasteland in this province. It is suitable for growing wheat, rapeseed, barley and sugar-beet. The upper reaches of the Yangtze and Yellow rivers, inland lakes and other rivers can supply enough water required for farming. In the last year of the current five-year plan, 80% of the reclaimed land will be cultivated. The total output for the five year period will be 2.65 million tons of grain and rapeseed. State farms will also breed 1.4 million head of livestock and build 600 flour mills, milk powder processing plants, oil-pressing mills and small sugar refineries. China has 100 million hectares of wasteland available for reclamation. Over 53 million hectares of it have been surveyed, mostly in Heilungkiang, Chinghai, Western Szechwan, Inner Mongolia and Sinkiang. Peking plans to open up four million hectares of virgin land in the next five years.

Power Stations—Work begun recently on a new 290,000-kilowatt hydro-electric power station on the Hunkiang River, a tributary of the Yalu River on the Sino-Korean border. The station is located in Hwanjen County south-east of the heavy industrial centres in Liaoning. It is one of the nine big hydro-electric projects now under construction in China. Each of these nine projects will have a capacity of 200,000 kilowatts or more. The Hwanjen hydro-electric project will be completed in 1960. Another hydro-electric power station with a generating capacity of 75,000 kilowatts in the upper reaches of the Chenkiang River in Chekiang will also be completed in 1960. According to the Ministry of Water Conservancy and Electric Power, sites will be located for 114 hydro-power stations with a total power generating capacity of 18,650,000 kilowatts this year. Construction of these 114 stations will be completed during the second and the third five-year-plan periods.

between governments. Thus, the number of such negotiations with other countries is steadily increasing.

In view of the far-reaching effects of the results of these talks on the development of Japan's trade, the Foreign Office attaches ever more importance to the pursuance of foreign policy in the economic field in concert with the various domestic measures for trade promotion which are mapped out by the ministries concerned.

General plans for the development of hydro-power projects at the gorges of the Yangtze River have been almost completely worked out. Work will begin this year on the Yangtze gorge to collect geological data for the hydro-power projects. Priority will be given this year to locating sites and drawing designs for hydro-electric power stations on the Yangtze River. Geological surveys to locate sites for 12 hydro-electric power stations are being carried out on the river and its tributaries. They include hydro-electric power stations each with capacity of more than 300,000 kilowatts on tributaries of the Yangtze River in Hupeh, Hunan and Kiangsi. Geological surveys are under way on the Yellow River valley to find dam sites and make designs for 12 hydro-electric power stations. This is part of the 46 projected dams to terrace its main course in the multiple-purpose plan for complete control of floods and over-all development of the water resources of the river. Primary designs for the 1,000,000-kilowatt hydro-electric power station at the Liukia Gorge on the upper reaches of the river will be completed in the first half of this year. The capacity of this station will be second only to that of the Sanmen Gorge Hydro-Electric Power Station, the dam of which is now under construction. Surveys will be carried out this year to locate sites and make designs for 90 hydro-electric power stations in more than 60 rivers in the country. The stations will have power generating capacity ranging from several thousand kilowatts up to 1,500,000 kilowatts.

Oil Reserves—Peking claims that more than 500 oil-bearing structures have been located in China during the past few years as a result of general oil surveys over areas totalling one million square kilometres. Over one-fourth of China's territory consists of well-developed sedimentary regions which are expected to contain petrolierous formations. The country has a total area of over nine million square kilometres. In the industrial centre of Northeast China, geological strata with concealed structures suitable for oil accumulation have been proved to exist in 200,000 square kilometres in the Sungliao Plain. The latest reports said that the drilling had for the first time struck two oil zones near the shore of the Sungari River. Numerous oil seepages and natural gas outcrops have been discovered in the lower reaches of the Yangtze River and the plain in Northern Kiangsu. Liquid oil seepages were found in scores of places near Funing in Kiangsu. The yellow crude oil could be used in oil lamps. Oil prospecting teams there concentrated now on drilling. Oil has just been struck again in two new oil-bearing structures east of the present newly-discovered oilfields in Central Szechwan. Well drilling is being carried out on a large scale in the area so as to discover the real extent of the new oilfields. The area of the Karamai oilfield in Northern Sinkiang has been extended with the recent new oil gusher in its northern regions. The oilfield plans to turn out an annual output of three million tons of crude oil by 1962. The Yumen oilfield in the Kiuchuan Basin plans to double 1957 output of crude oil by 1962 with the exploitation of new oilfields in the nearby areas. Prospecting teams from the Yumen oilfield are now searching for oil in the Turfan Basin in Sinkiang. The basin is some 10 times bigger than the Kiuchuan Basin. China has also rich reserves of oil shale. 180 deposits of oil shale have been located in 21 provinces and autonomous regions. Four-fifths of the country's 2,000 counties have coal deposits of which most are suitable for the production of oil by means of coal carbonisation or synthetic processes. Big brown coal deposits with oil contents ranging from 10% to 20% have been located in Shansi, Kwangsi, Heilungkiang and Inner Mongolia.

New Railways—A new 162-kilometre railway that will cross the Great Wall is being constructed. It will link Kalgan, the trading depot in Northwestern Hopei, with Tsining-Ulan Bator, the starting point of the Tsining-Ulan Bator Railway. It is scheduled to be completed in 1959 and will be 110 kilometres shorter than the present railway linking these two places. In the northwest, construction started recently on the series of 12 tunnels across the Tienshan Mountains which will carry the Lanchow-Sinkiang Railway. These tunnels form a major construction item along the railway and will take up 4.5 out of the 10 kilometres of railway section across the Tienshan

(Continued on page 63)

THE DEVELOPMENT OF CHEMICAL AND PROCESS INDUSTRIES IN TAIWAN

By Y. C. Yen, *Petroleum Refining, Salt Electrolysis, Food Canning*

Introduction

By chemical and process industries referred to in this article, we mean the industries of sugar and other food processing; manufacture of cement, glass and other ceramics; manufacture of paper and pulp; petroleum refining; rubber processing; tanning; manufacture of synthetic fibre, plastics, pharmaceuticals, dyes, and other chemical synthetics; manufacture of fertilizer; manufacture of acid and alkali; etc. It covers a very broad spectrum and represents an overwhelming majority of manufacturing industry in Taiwan, either by a number of factories or by the value of production. It is also in these fields of industry that most progress has been made on Taiwan. Indeed, out of ten new projects implemented in recent years, nine fall in the field of chemical and process industries. Therefore, the development of these specific industries discussed in this article will at the same time give a fairly good picture about the whole manufacturing industry in Taiwan, and concluding remarks made at the end will be generally applicable for the other manufacturing industries.

A. Trend—Past and Future

I. In the recent five years, tremendous progress has been made in the field of chemical and process industries in Taiwan. In 1952, the chemical and process industries were the following: Sugar, Cement, Paper and Fertilizer.

Other chemical and process industries were either non-existent or insignificant in scale.

Since 1952, expansion and improvement were rapid in the above-mentioned industries. New fertilizer projects lead to an increase of annual production capacity of 90,000 mt. nitrogen at a value of about 27 million U.S. dollars. Cement projects have increased the production from 500,000 mt. to 1,000,000 mt. annual capacity. The paper industry has expanded its total annual capacity from 90,000 mt. to 100,000 mt., and projects for new kinds of paper hitherto unavailable locally have been implemented and will soon be completed. In the sugar industry, consolidation has been made with an aim for cost reduction. In the food canning industry, efforts are mainly concentrated on quality control and improvement, though the production capacity has also been materially increased. In the field of petroleum refining, new technique and new manufacturing facilities lead to the production of oil products of high quality. Production capacity of salt electrolysis has increased from 20,000 mt. to 30,000 annually.

Aside from the above, several industries such as manufacture of rubber products, pharmaceuticals, sodium monoglutamate, which were insignificant in 1952, have emerged as industries of considerable importance, the annual production value of each of these industries is in the magnitude of several hundreds of millions NT dollars; at the same time their quality has been improved considerably.

Even more noticeable are the numerous new products since 1952. These are window glass, polyvinylchloride, rayon filament, yeast, high test bleaching powder and high grade bagasse board. Other new products involved in several projects which are still in the implementation stage at present moment are rubber tire, soda ash, benzene and toluene.

II. During this period of development, several points are worthy of notice: 1. Before 1952, very few large factories were under private management. Now, many new projects, such as the window glass plant, the polyvinylchloride plant, the rayon plant, the soda ash plant, the rubber tire plant and the by-product coke oven plant are all private owned. After the transfer of Taiwan Pulp and Paper Corp. and Taiwan Cement Corp., the whole paper industry and cement industry has become private. The result is that, whereas the production value of all private industrial enterprises accounted for only 35.9% of the total industry in 1952, it has been raised to 50.2% in 1957. 2. Before 1952, most of the large factories were initially established by the Japanese, efforts had been limited to rehabilitation and expansion. After 1952,

we have had started constructing new plants of considerable size. 3. Among the plants built after 1952, some require highly skilful technique. When the urea project and the polyvinyl-chloride projects were initiated, questions were raised from several quarters whether the Chinese engineers would be competent enough to operate them. Now such worry has been turned out to be unfounded. Rayon filament and window glass factories are also considered to be technically difficult but they are now fully successful.

III. It may be reasonably expected that the chemical and process industries will develop in the coming years along the same trend. That is: 1. Private investment will continue to gain increasing proportion in comparison to Government financing. This is only understandable since our Government budget does not allow substantial amount of investment in industry, and consequently industrial investment will have to rely mostly on private sources. 2. New plants will continue to appear. 3. Industries which need highly skilful technique will increase in number.

IV. Judging from the present status of the chemical and process industries, they possess special characteristics for their development in the future. First, many industries such as cement, paper, rubber products and window glass, will have to find export market for their further development. Other new industries to be set up very likely will also have to count partly on the export market. Since industries which rely on local market alone have virtually all been established. Secondly, since most industries are facing saturation in domestic market, the competition will be getting keener and keener. Enterprises failing in the competition will bound to be weeded out. Therefore, mortality of enterprises will increase as new enterprises emerge. This is inevitable under free competition. So long as it does not lead to decrease of overall production capacity, it is a phenomenon considered to be healthy than detrimental, and is nothing to worry about. Thirdly, one characteristic of chemical industries is that they are their own customers, i.e., the raw material of one may be the product of the other, sometimes forming a rather complicated pattern of mutual interdependence. The development of chemical industries will therefore be hampered in the initial stage due to the lack of certain key materials, but will eventually develop at an accelerated speed later.

B. Survey of fundamental conditions for development of chemical and process industries in Taiwan

Which industries offer the most chance of development? It is a problem often posed before us. The writer as one of the original authors of the Second Four-Year Plan and responsible for the portions relating to the chemical and process industries, fully realizes the limitation of any industrial planning. Any industrial plan of a free country can be nothing more than a statement about the direction and degree of development; individual projects made in the plan are simply suggestions and illustrations. Planners are subject to the weakness of any human being, and there is no assurance that their wisdom is better than the individual investors. Therefore, the investor should neither rely too much on, nor be limited by, the projects as advised by the Government or as mentioned in the Second Four-Year Plan. Instead, investors must make thorough investigations on several fundamentals of the project and carefully weigh the possible profit against possible risk. These fundamentals to be considered are: market, capital, raw materials and technique.

1. Market. To market a product, the price must be competitive with products from other sources. Furthermore, the lower the price, the greater the market. On the other hand, within certain limits, the larger the scale of production, the lower the cost; this is especially true for chemical and process industries, which are usually operated in tanks, vessels and pipes. Lower cost will enable the product to be sold at a lower price, which will facilitate a greater market. But the scale of production can be justified only if there is a market.

If the market of a certain product is able to support a plant of certain capacity, and under that capacity the cost of production is such that it can be so priced as to ensure a reasonable market, then the project of setting up the plant is sound. If, on the contrary, under that capacity the cost of production is so high that the product must be priced at a higher level, at which price the market available will not be able to support a plant of that capacity, then the project will fail.

By market I mean domestic market as well as export market. Due to freight and tariff protection, domestic market usually gives better profit and is also more reliable. But chemical and process industries which can be established on an economic scale of production for markets of Taiwan alone, such as fertilizer, cement, paper and alkali, have already been well developed in the past years, and these industries have become saturated or are near saturation at present moment. There are, however, some industries whose domestic market is not adequate enough to support factories of an economic size according to a standard of industrialized countries like America, can still support plants of such a size for their products to compete with imported products due to difference of ocean freight and the protection of tariff. Examples of such industries are methanol, acetic acid and soda ash. Some plastics, agricultural chemicals and synthetic fibres also belong to this category. In such cases, however, managers of these industries must fully realize that tariff protection cannot be considered as permanent and unalterable, and that as a long-range trend, price of industrial products, especially chemicals and synthetic products, will come down in the future. Therefore, they must make continual effort to reduce the cost, thereby reducing the price and expanding the market. For instance, if the price of soda ash, acetic acid and methanol is lowered, new industries using them as raw materials (for example, pharmaceuticals, resins, etc.) will be developed, with the consequent greater market, expansion of production may be justified. And expansion of production will lead to further reduction of cost, which will lead to further price lowering, etc. Eventually the product, or the products made therefrom, can be exported. It is through such a cycle that the industries of other countries have been developed.

Let me repeat again. The writer believes in the future there will be opportunity for establishment of certain chemical and process industries which have a local market sufficient to support a plant of moderate size, which size is considered to be very small in America and European countries, but can be considered as economic here in Taiwan due to tariff protection and freight difference. Such industries, through a cycle of reduction of cost and price and expansion of production scale, will eventually attain real economic size with products capable of competing in the world market. The writer will not venture to propose the establishment of new industries based on export market alone in the initial stage, or even mainly on export, except possibly in the fields of food processing and certain products made from bagasse.

2. Capital. The capital needed depends upon the nature of industry; and for some industry, depends mainly upon the size. The investor must realize that the capital needed should be decided after the size of a plant has been decided, and the size of the plant should be decided from market, cost, and price considerations as mentioned before. It will be a Procrustean act of "fitting the foot to the shoe" if the plant size is decided on the basis of a certain amount of capital which happened to be in the possession of the promoter. But too often it has been so in Taiwan.

Furthermore, any industry, especially chemical industries involving new technique, cannot expect to reach normal operation in the first few months, or even the first year. Any industry producing new products will need time to develop the market, even if the market potentiality is there. Even if the product is not new, the "homing-in" of product of a new plant will take some time. Therefore, any new plant will be expected to tie up a substantial amount of working capital. From observation on the industries in Taiwan in these years, the writer fully realizes the importance of sufficient working capital.

The above two points are considerations from the stand-point of investors. From the stand-point of the Government, the writer must point out that modern enterprise needs large-

scale operation, which in turn needs large capitalization. Many of our traditional thoughts and habits are not favorable to capital formation. At the same time, the high progressive income-tax, the tax on property, the limitation imposed on depreciation rate all tend to dissipate, rather than form, capital. As a layman, the writer has this question in mind: are these measures, which have been adopted in industrialized countries only after their industrialization, suitable to a country which is thirsty for capital and needs capital formation?

Since capital, not raw materials nor technique nor market, will be the limiting factor of our industrialization, taxation will have a dominant influence on the future of industries of Taiwan. How far our industrialization can go will be vitally influenced by our policy of taxation.

3. Raw materials. Due to the advancement in science and techniques the limitation imposed by the availability of raw materials on industrial development has been considerably reduced. Thus, either coal or crude oil, or any carbon containing substance if it is ample and cheap, with the addition of water and air, can make virtually every organic compound, including all synthetic fibres, plastics and fuels. Boron, silicon and fluorine compounds may compete with carbon compounds (the so-called organic compounds) in future. But this statement applies to a long-range development. At present stage, with technical know-how as possessed by us in Taiwan, the availability of raw material is still an important consideration for the development of any industry. The raw materials which can be used in chemical and process industries in Taiwan may be tabulated as follows:

	Local production is sufficient	Importation needed in part or in whole (at present)
Primary raw materials Chemicals	Coal, salt, limestone Caustic soda, hydrochloric acid, alcohol, carbide ² ammonia, sulfuric acid ³	Crude oil, sulfur ² Urea, acetic acid, benzene, soda ash, formaline ⁴ methyl alcohol, penoil ⁵

¹ Amount of local production is, and will be, insufficient to meet the demand.

² These chemicals are available at reasonable price.

³ At present these chemicals are too expensive as industrial raw materials. However, the price may be expected to decrease in future.

⁴ These chemicals will be produced this year or next. Projects for manufacture have already been implemented.

⁵ Project for making these products is in initial stage.

By this we do not overlook the following disadvantages of importation: (1) For some raw materials, freight is high in comparison to cost itself. (2) Supply may be unsteady. (3) Supply may be limited due to lack of foreign exchange.

Furthermore, the use of local raw materials has the additional advantage of either development of natural resources or promotion of other industries. Therefore, it is obvious that other conditions being equal, use of local raw materials is preferable and gives a higher priority to the industry. But the use of indigenous raw materials should not constitute a necessary condition.

4. Technique: Chemical and process industries, especially chemical synthesis, often needs special technique. But this point does not constitute a limiting factor on development. Eventually it is a problem of capital; except in a few cases, all technical know-how can be bought at a price.

But the writer would like to take this opportunity to point out that technique does cost money. This sounds simple, but it is not yet fully realized by our countrymen. Thus, in promoting any project, it is a common practice in industrialized country to get a technical consultant to study this project, just to decide whether this project should be implemented or not. By us, the spending of money for such purpose is repugnant to the investors. They simply want to get some free service from either some government agency or some private person. Another example is that in screening foreign investment, technical service fee except in rather small amount has been considered to be intangible and looked upon by responsible officers with doubt. Again, the relationship between employer and employee in several private enterprises has not been ideal. All these are related to the lack of understanding about the value of technical know-how.

C. Concluding Remarks

With the trend of future industrial development elucidated under A and the conditions analyzed in B, the writer ventures to make several remarks.

FINANCING THE PHILIPPINE BUDGET THROUGH TAXATION

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The postwar years may justifiably be labelled as a period of deficit spending, for the government fiscal planners have relied rather too heavily upon the use of public credit as a means of financing the budget. As it is true in other underdeveloped countries, when the government undertakes the serious task of economic development, the need for closer adherence to public borrowing becomes apparent.

Taxation in the past was regarded as the only means of paying for the costs of government services and goods for the benefit of the citizens. At present, however, compensatory spenders have assigned taxation to finance only the operational expenses of the government and have used borrowing for capital expenditures. But whether borrowing or taxation is applied, effective demand is reduced; this reduction in turn cuts into consumption and investment in varying degrees. While taxation cuts more on purchasing power than borrowing, the latter, if handled extravagantly, is highly inflationary and therefore harmful especially to low income groups. Taxation is admittedly a more effective fiscal tool in financing the government budget.

It is the purpose of this paper to discuss taxation for budgeting in the Philippines. An attempt will be made to answer some questions, among which are: How efficient are the revenue collecting agencies? What portion of the budget is paid by taxation? Are we taxing our people more than what people in other countries are paying? What are our major tax sources? How can taxes be raised from their present low levels?

Tax Administration

The Department of Finance through the BIR (Bureau of Internal Revenue) and the Bureau of Customs¹ formulates our tax policy² and implements the entire national tax system. The BIR, which is the main collecting arm of the Department, collects (during the last three years) an average of 60 per cent of the total gross revenue of the National Government. Its sole program of administration and enforcement of all internal

1. Since private enterprise is gaining increasing importance, some adjustment should be made on the banking system to give more service and opportunity to private sectors, rather than concentrating on public enterprises as in the past. Furthermore, a capital market must be established. 2. Since domestic market cannot offer sufficient opportunity for development and export must be resorted to, due measures must be taken to effectively encourage export. 3. Capital is the limiting factor of our industrialization and capital formation is dominantly influenced by taxation. Is it possible to consider the waiving of business income tax on reinvested profit? Is it possible to make business income tax related to the amount of capital? Is it possible to consider the "accelerated write-off" especially for chemical industries which is under such rapid technological change everyday that a process may become obsolete at any moment? 4. Both investors and government officials must understand the value of technical know-how. 5. With mutually-interrelated close relationship between various chemical and process industries, cooperation and coordination is very important. Since most basic chemicals, like caustic soda, chlorine, alcohol, sulfuric acid and calcium carbide, are to be supplied by public enterprises, we must guard against the possible attitude of some public enterprise to deliberately refrain from full cooperation with the private enterprises in order to avoid the possible accusation of "profiteering." We must make a public campaign, to the government officers including Legislators, Control Yuan members and auditors, and the public alike, that the selling of basic chemical raw materials at a low price is beneficial to the supplier in the long run.

revenue laws, special tax laws and regulations accounted for the general fund collection of P433.8 million in 1957; with an appropriation of P6.6 million, its administrative cost is about P1.52 per one hundred revenue pesos collected.³ To be able to collect to the fullest extent possible all sources of revenue and to intensify collection, the BIR has been decentralized since 1956 into 10 regional offices.

The Bureau of Customs collects an average of about 40 per cent of the total gross tax collections a year. Its principal function is the enforcement of customs laws and the administration of related activities. The Customs office supervises 14 customs houses and 5 subports all over the Philippines. In fiscal year 1957, it collected P311.3 million for the general fund; with an appropriation of P3.8 million, its administrative cost is P1.22 per one hundred pesos collected.

The cost of tax administration and collection in the Philippines may be impressively low, but the problem still is that actual tax collection is not enough in relation to the needs of the government. The efficiency of tax collection in terms of potential revenue sources has been questioned in many instances. President Magsaysay himself in his budget message supporting the 1957 budget, said: "I am sure that by improving the efficiency of the Government's tax collection machinery we can raise actual receipts considerably above the estimated 60 per cent of potential at the present time."⁴ Actual tax proceeds have been short by 5 to 10 per cent of budget estimates. This has necessitated the downward revision of figures before the end of each fiscal year.

Income tax statistics for fiscal year 1956 show that out of a population of 21.26 million, only 72,334 (or .34 per cent) individual income tax returns were filed, or about 0.87 per cent of the employed labor force of 8,314,900 people. To raise this percentage is a pressing challenge to the revenue collecting agencies.

Tax Collection

Revenue from taxation has increased by almost 3.5 times over the last decade. Tax collection was P226.9 million in fiscal year 1948, it was P745.1 million in fiscal year 1957, or an increase of P518.2 million in 10 years. In spite of this encouraging trend, taxation has not kept pace with the rapid growth of general fund expenditures (for both current expenses and normal capital outlays). While percentagewise the gap between taxation and expenditures has narrowed down, the gap in absolute terms remains unchanged.

Over the last four years, however, gross collections from taxation by the BIR and the Customs continued to register significant increases. (See Table 1). Even then, taxes could only cover from three-fourths to four-fifths of the general fund expenditures. In fiscal years 1955 and 1956, taxes could hardly finance the normal operating costs of the government. Taxes in fiscal year 1957 however were adequate to meet the current operating expenses and part of capital outlays. This seems to be the pattern for fiscal year 1958.

In all the four years 1955-1958 revenue from taxation covered more than sufficiently the general fund budget, excluding of course all other money appropriations approved outside of the general budget.

¹ In this paper, the Bureau of Internal Revenue shall be identified as BIR and the Bureau of Customs as Customs.

² The word tax is defined in this paper as a compulsory charge levied by a governmental unit against the income or wealth of persons, natural or corporate, for the common benefit of all the residents of the governmental unit.

³ Administrative expenses as computed included the cost of collecting BIR and Customs taxes which accrue to the special funds but are not added to the general fund.

⁴ 1956. Budget message of the President of the Philippines for fiscal year 1957. Manila: Bureau of Printing, p. 9.

TABLE 1

Revenue from taxation, F.Y. 1955 to 1958
(Million pesos)

Agency	1955 Actual	1956 Actual	1957 Actual	1958 Revised Estimates
A. GENERAL FUND				
BIR	334.9	377.2	433.8	453.8
Customs	150.9	208.3	311.3	304.4
Gross revenue collection	485.8	585.5	745.1	758.2
Less allotments to local governments	55.0	55.6	61.3	70.2
A. Net collection accruing to the general fund ..	430.8	529.9	683.8	688.0
B. SPECIAL FUND				
BIR	53.5	64.7	72.8	75.3
Customs	4.7	9.8	11.7	11.6
	58.2	74.5	84.5	86.9
B. Total collection accruing to the general and special funds (excluding allotments) ..	P544.0	P660.0	P829.6	P845.1
C. General fund expenditures ..	655.5	734.4	762.4	845.6
Per cent of taxes to general fund expenditures (A/C) ..	64.7	71.2	89.7	81.4

Is the Government Taxing the People Too Much?

The estimated revenue from taxation for 1958, amounting to P845.1 million, when spread among the population would

spell out a per capita tax of P36.57. Two years ago, per capita tax was computed at P31.04. (See Table 2). In relation to per capita income for the same period, the people contributed almost 10 per cent of their income to the government in the form of taxes. That leaves 90 per cent disposable income which the people can either spend for consumption or save. But with income per capita in the Philippines being only P399 in 1958, the remainder after tax is still inadequate to meet the minimum requirements of life. In other words, the ratio of tax to income is quite low and can still be raised significantly; but inasmuch as per capita income in the Philippines is among the lowest in the world, the raising of taxes poses a difficult problem.

Table 2 shows that per capita income has failed to rise conformably as projected in the government's economic program so that, actually, when income is reduced to constant prices, with 1950 as the base year, purchasing power of the currency declines. Higher prices, however, are mostly responsible for the increased level of spending if only to maintain the same amount of goods and services consumed by the government in the previous year. Consequently to keep up with rising prices, per capita expenditures in the government budget have increased continually.

From the international standpoint, the questions to resolve are: How much tax is absorbed by the national income? How do these taxes compare with those of other countries? The practice of using comparison in supporting a point especially among various countries is oftentimes frowned upon but perhaps by classifying the countries according to their stage of economic development, we might gain some meaningful information for policy formulation and determination.

Among the underdeveloped countries appearing in Table 3, our neighbors, Burma and Ceylon, taxed their people in 1954 and 1955 in relation to their national income twice as much as the Philippines did during the same period. Percentage of revenue collection to national income in Turkey and Ecuador in 1955 were 15.44 and 12.08 per cent, respectively. These are relatively higher than the Philippines' 10.77 per cent during the same year.

TABLE 2

Per capita income, expenditure and tax for fiscal years 1956-1958

Year	Population (Million)	National Income (Million Pesos)	Per-Capita Income	Taxes (Million Pesos)		Per Capita Tax	Expenditures (All Funds) (Million Pesos)	Expenditure Per Capita
				1956	1957			
1956	21.26	8,169.0	384.24	660.0	31.04	971.9	54.71	
1957	22.68	8,682.0	382.80	829.6	36.58	1,164.7	51.35	
1958 (Estimated) ..	23.11	9,227.0	399.26	845.1	36.57	1,212.5	52.47	

TABLE 3

Percentage of revenue, expenditure and public debt to national income of various countries
(National or Central Governments)

Country	Per cent of revenue to national income		Per cent of expenditure to nat'l. income		Per cent of pub. debt to national income	
	1954	1955	1954	1955	1954	1955
A. Highly developed						
1. Australia	23.24	22.56	19.84	19.63	90.82	88.47
2. Canada	22.74	19.48	22.49	20.22	95.11	87.42
3. United Kingdom	31.42	32.37	33.45	32.81	185.66	178.86
4. United States	21.67	18.64	22.71	19.92	90.96	84.69
5. Western Germany	24.27	22.10	24.84	22.28	15.80	15.91
B. Intermediate						
1. Argentina	12.19	12.76	17.28	13.19	52.55	—
2. Chile	13.16	27.66	16.20	31.29	4.44	6.50
3. Japan	16.62	14.82	16.31	15.48	8.88	7.90
C. Underdeveloped						
1. Brazil	10.58	9.73	12.20	10.32	8.72	—
2. Burma	24.97	26.74	28.90	28.10	16.94	14.73
3. Ceylon	19.48	20.07	17.76	17.76	24.52	21.16
4. Ecuador	7.94	12.08	9.24	13.38	9.00	—
5. Mexico	7.14	8.59	8.16	9.6	—	—
6. Philippines	9.66	10.17	10.69	10.94	14.83	16.04
7. Turkey	14.24	15.44	16.77	18.60	22.92	—

NOTE: Classification of countries taken from: Eugene Staley, 1954, The future of underdeveloped countries. New York: Harper and Brothers, pp. 16-17.

SOURCE: 1956 Statistical Yearbook, United Nations, New York, pp. 470-471; and pp. 501-545.

PREPARED BY: The Technical Staff, Committee on Appropriations, House of Representatives.

TABLE 4
Direct and indirect taxes arranged in the order of fiscal importance
(Million Pesos)
(General Fund) F.Y. 1955-1958

Classification	1955 Actual	1955 Per Cent	1956 Actual	1956 Per Cent	1957 Actual	1957 Per Cent	1958 Estimates	1958 Per Cent
Direct taxes								
1. Income tax	127.7	86.0	141.5	85.0	153.4	83.9	148.0	81.5
2. Residence tax	4.2	2.8	4.4	2.6	5.8	3.2	6.5	3.6
3. Estate, inheritance and gift taxes	4.5	3.0	6.2	3.7	5.3	2.9	8.0	4.4
4. War profits tax, fines, other incomes and miscellaneous	12.10	8.2	14.4	8.7	18.4	10.0	19.1	10.5
	<u>148.5</u>	<u>100.0</u>	<u>166.5</u>	<u>100.0</u>	<u>182.9</u>	<u>100.0</u>	<u>181.6</u>	<u>100.0</u>
Indirect Taxes								
1. Specific tax (Domestic)	118.1	35.0	133.5	31.9	153.2	27.3	161.5	28.0
2. License, business and occupation taxes	68.3	20.2	77.1	18.4	97.8	17.4	110.7	19.2
3. Special import levy								
U.S. goods	—	—	19.0	4.5	51.1	9.1	48.7	8.4
Non-U.S. goods	—	—	19.0	4.7	45.8	8.1	45.4	7.9
4. Compensation and advance sales tax	87.0	25.8	79.2	18.9	92.9	16.5	91.0	15.8
5. Ordinary import duties	45.5	13.5	53.5	12.8	66.9	11.9	66.9	11.6
6. 25% Duty on U.S. goods	—	—	20.2	4.8	37.4	6.7	36.5	6.3
7. Excise tax on imported goods	15.4	4.6	13.0	3.1	13.3	2.3	12.2	2.1
8. Miscellaneous taxes	3.0	.9	3.6	.9	3.8	.7	3.7	.7
	<u>337.3</u>	<u>100.0</u>	<u>419.0</u>	<u>100.0</u>	<u>562.2</u>	<u>100.0</u>	<u>576.6</u>	<u>100.0</u>
Direct tax	<u>148.5</u>	<u>30.6</u>	<u>166.5</u>	<u>28.4</u>	<u>182.9</u>	<u>24.5</u>	<u>181.6</u>	<u>24.0</u>
Indirect tax	<u>337.3</u>	<u>69.4</u>	<u>419.0</u>	<u>71.6</u>	<u>562.2</u>	<u>75.5</u>	<u>576.6</u>	<u>76.0</u>
	<u>485.8</u>	<u>100.0</u>	<u>585.5</u>	<u>100.0</u>	<u>745.1</u>	<u>100.0</u>	<u>758.2</u>	<u>100.0</u>

Intermediate countries like Argentina, Chile and Japan have much higher ratios; and highly developed countries like the United Kingdom, the United States and Australia have taxed 20 to 30 per cent of their national income. The general trend, however, is that taxation, except in a few countries, cannot meet planned expenditures and that the deficiency in tax collection is made good by public borrowing. An equally important trend is that the gap between taxes and expenditures is insignificant regardless of the development of the countries involved.⁵ The percentages of revenue, expenditure and public debt in relation to national income of various countries are shown in Table 3.

It is interesting to note that in the communist countries, taxes are also heavily depended upon to finance the affairs of government. In Russia, for instance, the household paid back to the State, in the form of taxes, 60 per cent of its total money income. Taxes are collected from enterprises which in turn are borne completely by the consumers through the process of forward shifting. Taxes are quite heavy especially to the peasants because these taxes are mostly of the indirect type.⁶

Sources of Tax Revenue

The National Government levies two types of taxes, namely: direct and indirect. A direct tax is one which is demanded from the very persons for whom it is intended or desired. Classified as to final incidence, some of the direct taxes collected are income tax, residence tax and inheritance tax. Indirect taxes which are levied on commodities are those specific taxes on cigarettes and liquor, sale tax, import levies and tariff duties.

Under the present setup of taxation, the BIR is charged with collecting all direct taxes including such other taxes and fees like business and occupation taxes, franchise tax, war profits tax, fees from public forests, income from rentals and service income. The Bureau of Customs has supervision mainly over indirect taxes including some internal revenue taxes such as compensating and advance sales tax and specific taxes.

The majority of the tax proceeds accrue to the general funds which is unrestricted as to use and, therefore, available for any budgetary purpose. The various sources of internal revenues and customs taxes which accrue to the general fund

and arranged in the order of fiscal importance may be seen in Table 4. Similarly Section 23 of Article VI of the Philippine Constitution provides that any tax collected for a special purpose shall be treated as a special fund. The National Government has numerous special funds which altogether amount to about 10 to 15 per cent of total taxes collected annually. (See Table 1 for amounts collected by the BIR and the Customs during fiscal years, 1955 to 1958). Some of the special funds which are generally of the indirect type are as follows:

1. Highways special fund
2. Tobacco inspection fund
3. National parks fund
4. Mines special fund
5. Radio registration fund.

In fiscal year 1958, the highways special fund, which consists of taxes on gasoline and naphtha, is expected to yield P75 million for financing such public works as roads, highways and bridges.

There is heavy dependence on indirect taxes, which are estimated to produce about 76 per cent of total revenue from taxation in the current year. They have overshadowed the importance of direct taxes which amount to about 24 per cent. A close examination of these taxes reveals that the final consumers absorbed practically over 50 per cent annually of the total taxes collected in the last three fiscal years. Regardless of ability-to-pay, indirect taxes can be easily shifted to the final consumers who are forced to pay a higher price for every commodity purchased as the cost, the profit margin, and the hidden tax are combined or included.

A consumption tax, as most indirect taxes are, is easy to administer and collect, thus it is widely used in underdeveloped countries in which the complicated tax machinery has not been improved to a point comparable to that found in advanced countries. The middle and lower income brackets are hit relatively harder than the well-to-do and most of the time the former unconsciously does not know where part of the excess price goes. Contrariwise, the highly developed countries have found the income tax to be a more stable source

⁵ Eugene Staley, 1954. The future of underdeveloped countries. New York: Published for the Council of Foreign Relations by Harper and Brothers, pp. 16-17; See also Norman S. Buchanan and Howard S. Ellis, 1954. Approaches to economic development, pp. 19-20.

⁶ Franklyn D. Holzman, 1955. Soviet taxation. Harvard University Press.

of government revenue. A glance at Table 4 will show the increasing percentage of indirect taxes collected, starting with 69.4 per cent in 1955 and rising to 76.0 per cent in 1958, compared to direct taxes during the same period. The trend seems to be away from the policy of more direct taxes in the years to come.

Among the direct taxes, four-fifths of the total comes from income tax. In the last four fiscal years, income tax with an average yield of P142 million a year ranks first among the principal sources of revenue.

Among the indirect taxes, specific taxes on domestically manufactured articles, business and license taxes, special import levy, compensating and advance sales tax are the first four principal sources of revenue arranged according to productivity or yield. The special import levy which ranks third is a new tax, authorized only recently under Republic Act 1394 to replace the 17 per cent excise tax on the sale of foreign exchange (R. A. 601) which became inoperative with the effectivity of the Laurel-Langley Agreement on January 1, 1956.

The various sources of revenue classified as direct and indirect taxes, with their corresponding yield during the fiscal years 1955 to 1958, are shown in Table 4.

Fiscal Importance of the Individual Income Tax

As pointed out earlier, income tax on individuals and enterprises as a source of revenue ranks first among the direct taxes and third among the principal sources of revenue.

In the income tax returns assessed in 1954, two-thirds of the same (P72.9 million) came from corporate income tax and one-third (P33.2 million) from individual income tax. The returns showed a markedly uneven distribution in individual incomes. While 86 per cent of the total number of taxpayers received incomes from P10,000 and below, they contributed only 17 per cent of the total individual income taxes collected. On the other hand, concentration of income is among those taxpayers whose net incomes ranged widely from P10,000 to P100,000. While this group made up only 13 per cent of the total number of taxpayers, they paid 60 per cent of the total tax collection.⁷ A further breakdown of this group reveals that people whose incomes ranged from P10,000 to P40,000 paid almost 40 per cent of the total individual income tax for individuals due and those in the P10,000 to P20,000 bracket absorbed the highest proportion.

Tax group	Per cent of taxpayers	Per cent of tax collected
I — Less than P2,000 to P10,000	86	17
II — P10,000 to P100,000	13	60
III — P100,000 to P500,000	1	23
	100	100

The corporate income tax structure is generally more proportional and degressive to a certain extent; proportional in the sense that the tax rate is a constant percentage of the tax base and degressive beyond P100,000 net income because the increase in the tax rate does not take place as fast as the increase in the base.

In the 1955-1956 income tax returns, the tax paid by individuals picked up considerably to 41 per cent, with taxpayers in the P10,000 to P20,000 bracket absorbing again the highest proportion of the income tax paid by individuals. But the more immediate considerations are: Is it possible to improve further actual collection from this source by raising the percentage of assessment in relation to total income reported? Is it possible to raise corporate income tax rates and make them more progressive so that we can increase government collections from this source? And how could ability-to-pay and equity be made more pronounced?

The Problem of Increasing Revenues

Our experience over the last few years has shown that while general fund revenues have been increasing at an average of 20 per cent yearly from fiscal year 1955 until fiscal year 1957, they are not high enough to finance any substantial increase in economic development outlays. By December 1957, collection trends for fiscal year 1958 have showed signs of weakening. For the first half of the current

fiscal year, actual collections fell short of budget estimates by about P76 million.

The drop in revenue collections which caused the present financial stringency of the National Government is mainly due to the following factors:

(1) Foreign exchange difficulties resulting in very much reduced dollar allocation for import purposes; (2) Reduced domestic business spending and business slack as a consequence of dollar shortage; (3) Reduced agricultural production caused by bad weather conditions in many areas; (4) Rampant smuggling and continued tax evasions; and (5) The austerity program launched in late December of 1957.

The annual general appropriations have been increasing at an average of P50 million, without any indications from the Congress as to the corresponding tax sources to finance them. Three most important revenue proposals which adversely affected current budgetary income for the failure of the Third Congress to give the necessary legislative support are: (1) the extension of the rates of individual income tax prescribed by Republic Act No. 1094, ranging from 5 per cent to 60 per cent which expired last December 31, 1955; (2) the tax amnesty law granting partial amnesty on past delinquencies; and (3) the national tax census⁸ to improve revenue administration and collection procedure. Altogether, these three measures could have brought in P25 million additional revenue for 1958. In the preceding year, the same proposals were among the eight measures proposed to increase government revenues by P80 million which did not get the approval of Congress.

In addition to reviving the hiked individual income tax rates and approving the tax amnesty law and the national tax census, various revenue proposals—ranging from new taxes, revision of existing tax laws, providing the feature of incentives, to rewarding informers—have been submitted to the Fourth Congress to augment the income of the National Government and thus meet the increased outlay proposed for fiscal year 1959.

Some of the important proposals which seek to amend certain sections of the National Internal Revenue Code (Commonwealth Act No. 466) are as follows:

(1) Reverting to the rates of individual income tax ranging from 5 to 60 per cent as prescribed by Republic Act No. 1094. These rates have been enforced from 1950 to 1952 and from 1954 to 1955 without any protest from individual taxpayers. The current rates ranging from 3 to 60 per cent are prescribed by Republic Act No. 82 and enforced during 1946 to 1949, 1953, 1956 and 1957.

(2) Increasing the rate of income tax on the income of non-resident aliens not engaged in business here but are deriving income from sources within the Philippines from 12 to 20 per cent. This will equalize taxation between residents and non-residents.

(3) Authorizing the Commissioner of the BIR to change assignment of personnel without the necessity of securing the approval of the Secretary of Finance. As an improvement in personnel organization, this amendment is designed to meet the exigencies of the revenue service.

(4) Fixing the corporate income tax at the flat rate of 28 per cent for both domestic and foreign corporations. The present rates on corporate income tax are comparatively lower in the Philippines than in other countries.

(5) Providing for the deductions of depletion in case of mines, oil and gas wells as incentives to the development of natural resources; the exemption from tax of net long term capital gains reinvested in agricultural or industrial enterprises within twelve months after the sale or exchange of capital asset is another form of incentive taxation.

(6) Changing the time and manner of payment of income tax to coincide with the filing of the return based on the theory of self-assessment, but subject however to stiff penalty, will insure faster collection of taxes due and save some administrative difficulties.

(7) Increasing the rates of specific tax on some products like distilled spirits, gasoline, diesel fuel, oil and cigarettes.

⁷ 1956. Needed: A tax research programme. Economic Research Journal 3 (No. 2, September 1956): 69.

⁸ 1957. Five-Year Fiscal Plan and the 1958 Budget. Manila: Bureau of Printing, pp. 46-47.

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ECONOMIC LETTER FROM MANILA

The Philippine trade deficit widened during the first quarter of this year. The austerity measures put in effect in the early months of the year failed to halt the adverse trend. Total imports during the quarter amounted to P304 million, as against P282 million for the same period last year. Total exports came to P207 million, as compared with P234 million in the first three months of 1957. Most disappointing and rather serious!

The Nickel Bill passed by both houses provides incentives for foreign investors to undertake development of the extensive government-owned nickel deposits in Surigao. Main provisions of the bill would: 1. Exempt the concessionary company from all taxes until 75% of the original capital has been recovered. 2. Allow the company to repatriate up to 80% of its foreign capital within five years from the start of production. Also allow the remittance of earnings and dividends, provided that the total remittance and repatriation for any one year does not exceed 50% of the total investment. 3. Fix government participation in earnings at a rate not to exceed 35% of the net profits or 3.5% of the gross income, whichever is higher.

Current dollar reserves of the Philippines: \$143,190,000. Currency issue of the Central Bank: P821,620,000. Gold price, free market in Manila: Bullion sold for P119.50 per oz. Refined unquoted.

Standard Vacuum Oil Co. inaugurated its new Cebu office building. The reinforced concrete structure is the most modern addition to the Cebu city's skyline. E. R. Squibb and Sons Philippine Corp. announced that for the first time it is marketing a special line of pediatric products especially for infants and children. The move is an outgrowth of the increased emphasis on mother and child health in the Philippines. The new line is made up of a variety of preparations of importance in the prevention and treatment of childhood diseases.

Joaquin G. Garrido, president of Capital Insurance and Surety Co., Inc., reported a record of P6,331,265 of premiums written for the past year, the biggest volume by any single property insurance company in the Philippines. Garrido also reported an increase of P1,676,277 in the assets of the company, which now stands at P6,228,000, and a net profit of P265,267. The company paid to claimants P3,063,748.90 during the year, of which over P400,000 alone went to passengers and third parties of automobiles and common carriers, such as taxicabs, jeepneys and buses involved in accidents. Premiums and other reserves of the company amount to P2,047,000. Stockholders received a 15 per cent cash dividend.

Islands Products Corporation, owned by Williams Equipment Co., Ltd., is embarking on a program to double its production and exports of quality acacia wood products. Robert T. Williams, board chairman, predicts that this operation may some day become a million-peso industry. Popularly known as raintree wood, acacia has been used as a shade tree but has only recently been put to extensive commercial use. Acacia products are finding increasing acceptance in foreign markets. Recently the company has been producing some P20,000 worth of acacia tea tables, bowls, salad sets, etc., a month, most of which are sold in Hawaii, the U.S. and West Germany.

The Philippines exported 20 per cent less copra and coconut oil during the first four months of this year than during the comparable 1957 period. Shipments to date in 1958 totalled 176,922 tons. Copra exports dropped again in April, the fifth straight month of the downward trend, with only 54,150 tons exported, the smallest monthly tonnage since March 1955.

The U.S. navy specified Philippine mahogany as among the three woods that may be used for the 5,000 Capehart housing units to be constructed this year for military personnel on Oahu island. About 2,000,000 board feet of Philippine mahogany was imported into Hawaii last year.

The Producers and Exporters Association of the Philippines is opposing a plan of the Department of Agriculture which would gradually place a total ban on the exportation of logs from the Philippines. The object of the ban would be to encourage the Philippine plywood and sawn lumber industries. Gaudencio E. Antonino, president of the association, declares that banning log exports before the country has the mills to absorb the local log output would bring about unemployment in the logging industry and result in cuts in the country's foreign exchange receipts. He states: "To encourage the expansion and the establishment of plywood factories is very desirable, and we are all for it. But to ban log exports for the purpose without first making available machinery and other equipments for plywood manufacture, and inability to provide them in the near future because of tight credit policy, will be harmful to our country and to the logging industry." The log export ban would cut down on log exports gradually to a point of total prohibition within five years. The country at present is getting only one-fourth of the actual proceeds of its log exports, the other three-fourths going to lumber processing plants and exporters abroad. Under the proposed policy, big forest concessionaires would be required to set up sawmills and processing plants, while smaller operators would be allowed to group together and put up sawmills.

The president of Bulkley, Dunton Paper Co. of New York said that his firm hopes to set up a paper products processing plant in Manila. He is seeking a Central Bank license to import machinery from the United States to convert roll paper into paper bags, sheets, roll paper, etc.

General Base Metals considers 1957 as one of the most successful years since the company was organized in 1949 and looks forward to another year of comparative success in 1958. In his annual report to stockholders, Lazaro A. Cruz, president and general manager, emphasized that "the manganese market was most favorable to us. With the added privilege extended to manganese producers under the No-Dollar Import Law, the company made a net profit of P145,782, wiping out accumulated deficits in previous years and enabling the firm to declare a 10% cash dividend to all stockholders of record as of February 14, 1958." Cruz also advised stockholders of the discovery of shipping grade ore under limestone deposits. "This discovery is significant", he said, "because these shipping grade ores can be conveniently mixed with low grade ores, of which we have an abundant deposit. This will enable us to meet a commitment of 17,500 tons to Mitsubishi Shoji Kaisha, Ltd., the company's regular buyer, at 75 cents per unit of 40% manganese."

There has been considerable discussion as to the total amount of remittances from the Philippines to foreign investors in recent years in relation to the total foreign investment in the country. This matter is under research and figures on it are expected to be released shortly. However, the actual amount of remittances during the past eight complete years and the first quarter of the current year is a matter of record in figures released by the Central Bank. It is interesting to note that the total amount of these outward investment remittances during the period came to a great deal more than the total foreign exchange holdings of the Philippines at the present time.

The tabulation of these remittances follows:—

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A HONGKONG DEVELOPMENT CORPORATION*

By Professor E. S. Kirby

The Scheme for a Development Corporation rightly envisages an institution whose essential purpose is to mobilise and channel capital resources for longer-term development in Hongkong. This proposal is most welcome to thoughtful and progressive citizens, because it means thinking in a practical way, and on a reasonably long-term basis, about the future livelihood and development of Hongkong.

The short-term basis of thought and action was more or less suitable in the past, when Hongkong was distinctly an entrepot which served, merely on the plane of trade and exchanges, an area consisting of backward economies, which were separate and diverse in their conditions and tendencies. In that situation, speaking generally, business and other policies were necessarily opportunistic. In the last few years, however, these conditions have radically changed, on both the supply side and the demand side.

Hongkong economy, since the war, has not only grown laterally, by spreading out—it has developed qualitatively at the same time, in a manner which may be described as growing also in depth. There has been a striking industrialisation. There has also been a great development of business services—insurance, banking, shipping, agency business, etc. Our supply function has thus radically changed.

Meanwhile the demand side, the whole pattern of the economy of South and East Asia, on which our livelihood depends, has also changed. We are ringed all around with countries vitally determined and eagerly intent on their own economic development, and expressly organising themselves for it, on longer-term perspectives, with specific plans and policies to that end. Every one of our customers is doing this; in fact Hongkong is about the only place of its kind in the whole world which does not have a policy—perspective of this nature.

Commercial banking and the shorter-term supply of capital are well developed and organised in Hongkong. They account, to a considerable extent, for the relative prosperity of the Colony in the last few years. But this prosperity and development may well be termed superficial. Because it is only two-dimensional. Business men and governments must take, nowadays, a perspective view which has not two, but four dimensions.

The third dimension is depth. Under the effective superstructure which Hongkong earlier developed, of what economists call "tertiary industries"—at the end-stages of the economic process, i.e. distribution, entrepot functions, banking, foreign exchange, and business services—a certain amount of "secondary" industrial activity, in the middle ground of manufacturers, has recently developed, giving a certain amount of substructure to this economy.

But that substructure is extraordinarily flimsy. We must bear in mind that Hongkong is now a port city, business and industrial centre of the stature and dimensions of such places as (to take random examples) Liverpool or Southampton in the U.K., Boston or Portland (Oregon) in the USA. Compare such places as the latter, and we see how shallow, small-scale and impermanent-looking, relatively, is Hongkong's mushroom-growth of manufacturing.

Hongkong has very few natural resources indeed, apart from the labour and enterprise of the population. Therefore, primary industry (local extraction and production of raw materials and food) can never figure significantly in its development. Its progress and prospects depend on two things above all. The first is the deepening of the structure and roots of manufacturing activities in Hongkong. Recent extension of technical education in Hongkong was a good step in the direction of qualitative "deepening" in the industrial sphere. Much more is required. Especially development of higher commercial education. Also development of public policy in the direction of systematic assistance in longer-term development—of which the proposed Development Corporation could be a significant instance.

Together with this, the second necessity is a much fuller and more efficient integration of those secondary activities with

the tertiary ones, the already-developed superstructure of ancillary services. The latter still dominate the former, and govern their development, in Hongkong; this is perhaps a bit like the "tail wagging the dog", in the conditions of the modern world-economy.

The fourth dimension is time. "Time is money"; nowadays this must be construed especially in the sense that only people who can look a bit ahead in time are likely to have any money later on. In a world full of Five-Year Plans, a community living on day-to-day hopes, exercising about enough foresight to expect to maintain liquidity for five years ahead, and after that the deluge, is essentially a misfit. This high liquidity-preference must be countered. Holding your savings on short-term account, in readily cashable form, is surely the worst policy, communal or individual, in this age of secular (i.e. long-term) inflation.

The rest of the world is working, saving and investing for long-term basic economic development. Wise individuals are investing, these days, in wide and balanced industrial undertakings. Wise communities everywhere are encouraging this tendency, by providing practical facilities for such developmental investment, with broad policies—mostly going so far as the extension of government guarantees and subsidies—for the "mobilisation of domestic capital" and the attraction of foreign capital, and for channelling this capital into longer-term developmental activities. In Hongkong, in this respect also, the short-term view thoroughly dominates our outlook.

* * *

Mr. Clague's suggestion seems to me extremely judicious. He proposes a Voluntary Board, on which senior Government officials would sit together with professional and business men, of which the latter would be the majority. It would advance medium or long-term capital for industrial development, also housing development, in cases where sound projects are forthcoming through the ordinary channels of enterprise, but the requisite finance is not.

This rightly stresses two aspects. One is that housing problems are taken in conjunction with industrial problems, in this proposal, on the plane of policy and implementation. Even if separate Corporations for industry and housing are predicated, the two must be fully coordinated, for many reasons. As we approach nearer to a "standing room only" situation in these crowded twin cities, it becomes evident that piecemeal uncoordinated solutions are insufficient; whether we like it or not, we shall have to enlarge our ideas in the direction of zoning, town and district planning, and more rational conceptions of location and civic development policy.

We are already losing to some extent, in the economist's terms, both the internal economies and the external economies. By the former is meant the advantages of the large-scale, as larger-scale factories and better housing schemes can only be envisaged on larger and better-prepared sites; by the latter is meant the advantages of an industry that is more integrated, one aspect of which is the advantage of having industries and communities to some extent "zoned" in special areas more suitable to them and specially prepared and equipped for their particular needs. Such a Development Corporation, composed of business and professional men, together with government representatives, could help in these respects, and avoid the repetition of past mistakes.

This leads to the second strong point in Mr. Clague's formulation. This authority, fully representing business judgement (presumably the preponderant element in its membership) plus technical judgement and Government judgement, would exercise a certain (though not excessive) selectivity, encouraging the formulation and execution of good projects, and filtering out those which are unsound. This is particularly important, as we cannot go on simply multiplying the already-existing types of manufacture, but must diversify by developing new lines of activity and new skills, new openings for employment. While, on the side of housing, indeed of the whole range of

HONGKONG NOTES AND REPORTS

Hongkong vs. Lancashire—At last week's Commons debate in London the British Government stood firm against requests from Lancashire to impose restrictions on cotton imports from Hongkong, India and Pakistan. At the beginning of the debate, Mr Harold Wilson, former Labour President of the Board of Trade, urged the Government to set up a buying commission to regulate textile imports, to send an official to Hongkong to negotiate an agreement and to deal with the "depressed" labour conditions in Hongkong. Mr. Wilson alleged that the Lancashire cotton industry had been "slowly bleeding to death" in the last four years adding that the Government had rejected or ignored all appeals for help. Sir David Eccles, President of the Board of Trade, said that he was very optimistic of an agreement for Pakistan to restrict her cotton exports to Britain in which event "we shall then go back to Hongkong and this time I very much hope that the Cotton Board will succeed in reaching an agreement with the Hongkong industry."

Mr. C. C. Lee, Chairman of the Hongkong Spinners' Association, said last week that Hongkong textile men are quite ready to sit down to negotiate with Lancashire interests, if the United Kingdom has reached an agreement with the textile industries of India and Pakistan. Mr. D. Y. Pong, Chairman of the Hongkong Cotton Merchants' Association, however, still opposes the idea of fixing a ceiling on Hongkong's textile exports to Britain. He said that if all spinners here stopped operating their total of 320,000 spindles, Lancashire would have little benefit as the number of spindles here was only slightly more than one per cent of the total of spinning machines in the United Kingdom. Mr. Pong also pointed out that local textile workers received relatively higher wages than their colleagues in all other industries here. The clamour for raising their scales of wages would only result in losing their means of support in this highly competitive industrial world.

Speaking for Hongkong over B.B.C. in "London calling Asia" broadcast, Sir Alexander Grantham, the former Governor of Hongkong, refuted Lancashire charges against the textile industries of Hongkong on the "depressed" labour conditions here. Sir Alexander said, "Undoubtedly the hours of work are long in most Hongkong mills but the conditions in which they work are excellent." At a dinner of the China Association in London—a businessmen's organisation interested in promoting trade with China and the Far East—Sir Alexander pointed out that the Colony had suffered more than anywhere else from the UN embargo on trade with China upon which Hongkong depended so much. HK had accepted the embargoes but had them to turn to its own industrial production even though it was facing a flood of refugees. He said the Mother Country should be prepared to help the people of Hongkong.

Mr. John Keswick, Chairman of the China Association, pointed out that last year Britain had a surplus of £21 million in her trade with Hongkong. He also said that most of the imports from HK were finished in UK for reexport and that restriction on those imports would drive such places as Hongkong into the finishing trade which HK was indeed beginning

social policy—land utilisation, education, public health, political and social stability—a degree of coordination is necessary, on the one hand checking unwise developments (which would create what I may call for short "black elephants") and on the other hand encouraging desirable developments for which everything but the "pump-priming" is available.

I am not advocating a Planning Board. But I do foresee, for the near and not distant future, the need to provide this sort of general guidance, to provide expert consideration of the general implications of our development, and to provide stimulation, at the basic point of capital-financing, of promising enterprises. This would be only an ancillary, supplementing existing facilities, leaving all the dynamic functions to free enterprise, with no implications of State Control.

* At a recent Legislative Council meeting it was suggested by Mr. J. D. Clague that Government establish a Development Corporation together with private citizens, and that such a semi-official Corporation should promote manufacturing industry and private housing construction. This proposal was subsequently discussed by many people and was made the subject of a public meeting at which Prof. Kirby addressed the gathering.

to do. Lancashire at present has 28 million spindles while HK has only 300,000. Mr. Keswick added that in Manchester they spun but did not always toil, but in Hongkong they both spun and toiled.

Commenting on Mr. Wilson's allegation that Lancashire cotton industry has been slowly bleeding to death in the last four years, Mr. Cyril Harrison, President of the Manchester Chamber of Commerce, said that this was "absolute nonsense." He considered that Britain's loss of cotton exports was not only due to heavy imports of cheap cotton goods from the East; fashion changes, use of other fabrics, and the reductions of stocks by distributors had all contributed to the present downward curve.

A local English language daily, the Hongkong Standard, in an editorial entitled 'Mr. Wilson turns back the Clock' was very polemic and unfortunately too aggressive in tone. It pointed out that all three proposals made by Mr. Wilson could only be meant as a threat from the vantage point of Hongkong. "The government textile buying commission which Mr. Wilson proposed would, in the first place, destroy the very foundation of British economy: free enterprise. It would eliminate all the competitive advantages of British trading firms dealing in textiles and force all of them to buy not the best quality goods at the lowest price but at a price above the natural level of a competitive market. If either the Conservative government or a Labour government sought to put into effect such a government-operated buying commission, it would have to contend first, not with Hongkong, but with the strong opposition of trading interests and finishing plants in England. Any government which attempted such a measure and tried to ram it down the throat of free-enterprising British business interests, would have to take its political life in its hands. Mr. Wilson knows full well that his proposal for a government buying commission is only good as a threat. For he probably has no intention of carrying out his proposal once he has achieved its purpose through threat. Furthermore, if a buying commission were established to regulate textile imports to the United Kingdom, such a regulation would be a unilateral action which could be enforced without agreement with Hongkong. On the other hand, if an agreement were reached providing a quota for Hongkong textile imports into the United Kingdom, there would be no need for a government textile purchasing commission.

"Mr. Wilson's point of trying to bring about a London-imposed labour reform in Hongkong would be equally difficult to put into effect. Wage scales and working hours in each country must be in harmony with the different economic structures. The wage scales and working hours in Hongkong may seem low by British standards, but they are on a level with general conditions in all Asian countries. On the other hand, while British workers may be happy and proud about their own wage scales and working hours, their standard may appear to people in America as barely above the sweated labour level. In any event, Mr. Wilson and his colleagues are not interested with the lot of Hongkong working people. They are interested merely in using the labour question as a battering ram to disintegrate Hongkong's economic structure so that our production costs would be so high that our textile products would no longer be competitive, not only in England, but also in Far Eastern markets. The proposal made by Mr. Wilson for the so-called labour reform would only bring forth widespread unemployment, discontent and social upheaval, the consequences of which would be far beyond the ability of the United Kingdom to meet at the present moment. The question of labour is an explosive one in this Colony which, due to its geographic location and its population pressure, is in a precarious position anyway. If the British government in London wants to improve the lot of Hongkong workers, it must first be prepared to foot the bill for unemployment benefits and insure local workers against any sudden increase of factory shutdowns.

"Mr. Wilson charged that our Hongkong employers live on sheer exploitation. This is a baseless charge. Hongkong millowners—even the littlest—manage to survive by risking their capital, by working hard and by using their foresight. They are certainly as honourable as the millowners in Lancashire. If there is any exploitation, it is Hongkong which has been exploited. We have given the United Kingdom some £301

million annually in business. We have enriched her economy by leaving annually some £20 million in trade in her favour. We have given England our loyalty and our friendship. In return, we are being exploited, threatened and smeared merely because Mr. Wilson and his Lancashire associates think that we are too weak and helpless to defend ourselves against those who threaten our survival."

Federation of Industries—The Hongkong General Chamber of Commerce last week announced its support for the proposed Federation of Hongkong Industries. The Chamber's views are listed below:

The Chamber recognises that if such a Federation can be formed, and worked with the full co-operation of all its members, great benefits will result to Hongkong and that the Federation could provide benefits beyond those arising from existing organisations. It is felt that the advantages are so obvious, it is unnecessary to elaborate on them, though mention might be made here of the proposed expansion of the Trade and Industry Advisory Committee. The Chamber is convinced this is a real step towards greater liaison between Government, commerce and industry. Whilst registering its support for the proposals and notifying its willingness to help and advise the proposed Federation, should such help and advice be sought, the Chamber considers itself bound to mention one great difficulty which it is considered the embryo Federation may well encounter in its early days. This will be the enforcement of its requirements in regard to ethical conduct of its members. Such requirements are envisaged by the proposals that the Federation should provide a service designed to ensure that the quality and specifications of goods delivered are in accordance with contract, and that it should promulgate a code of fair practice and adopt means to enforce it. This Chamber has several times been advised, in regard to disciplining its own members, that anything beyond the withdrawal of membership rights from a malpracticing member could be construed as acting with malice, and leave the Chamber open to action at law, and presumably, the same applies to any other organisation.

It is considered essential that the Federation should be all-embracing in its membership, otherwise it will merely be an organisation exactly similar to those already in existence, but under another name. This fact emphasises the difficulty indicated above. It might be worthy of consideration for members to set up a bond on joining, and for a system of fines to be imposed, in place of outright expulsion. This actual idea may not be popular, but it is felt that some alternative to expulsion should be found. It must be recognised that some of the proposed functions of the Federation, such as the operation of an introductory service for overseas buyers, could react detrimentally on the legitimate interests of merchant exporters. Export houses have played a vital role in the development of the Colony's industry and many of them have invested considerable sums, either by buying factories outright, financing factory development or production and/or by the setting up of extensive export departments in their own offices. For this reason, such activities are undesirable, but it cannot be denied that, whilst some manufacturers in the Colony operate their own export departments on an efficient and reputable basis, there are some who do not. These latter, if they are members of the Federation, (and if they are not, the Federation will not be performing its function of representing industry as a whole), will be entitled to all the services which the Federation offers in regard to direct contact with overseas buyers. Care will have to be taken not to alienate the merchant exporters, but rather to ensure that the facilities which they and their organisations provide should continue to be used for the benefit of industry and of the Colony as a whole.

As regards the proposed constitution for the Federation, the Chamber considers the proposed grouping of industries to be a good working basis and that, provided heterogeneous groups such as the proposed textile weaving and finishing group can compose their differences, it should operate successfully. The Chamber has given some consideration to the question of staffing and financing the Federation, and fully agrees that this will call for the services of a secretariat of the highest calibre and integrity. Administrators of the required calibre are, no doubt, available, but to obtain their services for what cannot be other than an arduous and exacting task will call for considerable expenditure. In conclusion, the General Committee of the Chamber wishes to express its strong conviction

that, for the successful launching of the Federation, the goodwill of all the existing manufacturers' organisations and individual manufacturers must be obtained, irrespective of whether they are large or small, prosperous or struggling. It seems inevitable that, if the Federation is formed and functions effectively, it will overlap the activities of more than one existing organisation, but this will have to be accepted in the interests of the Colony as a whole.

The Chinese Manufacturers' Association continued to oppose the formation of the Federation. The Association's official statement reads: "The Federation of Hongkong Industries, as its name implies, should be formed of associations as units of membership. If at present too few industries are grouped in functional associations to qualify as members, and thereby delaying the immediate formation of the Federation of Hongkong Industries, such delay will be worthwhile. In view of the fact that the Federation must be fully representative and firmly established, formation of more industrial associations should be encouraged to provide that basic membership. The recommendation of the Advisory Committee to enrol factories as members of the Federation will only mean competition with existing associations for factories as members, upon whose number all industrial associations depend for their respective strength. In other words, the Federation of Hongkong Industries will be established at the expense of these existing associations which will lose both prestige and usefulness in consequence as time goes on, and, therefore, the Chinese Manufacturers' Association of Hongkong must express its disagreement with this recommendation of the Advisory Committee. Furthermore, most of the functions as envisaged in the Advisory Committee's memorandum are being performed by the Chinese Manufacturers' Association of Hongkong, and if greater Government encouragement and assistance can be extended to further develop this Association, all functions can be taken up by the Chinese Manufacturers' Association of Hongkong to promote the well-being of industries in the Colony. However, if the Federation of Hongkong Industries is formed to assist, advise and guide local industries, with its membership based on associations instead of factories, and with its functions so conducted as not to clash with the interest of existing associations concerned, the formation of the Federation of Hongkong Industries will have our full support."

A New Textile Mill—A new two-storey \$10,000,000-textile factory will be completed at Castle Peak new market by next spring. Site formation covering about 35,000 square feet is underway. The new factory, operated by the Tai Hing Cotton Mill will include spinning, weaving, dyeing and bleaching processes. It will have about 15,000 spindles in the initial stage. Equipment is imported from Switzerland. The factory is financed solely with local capital.

New Restaurants—The New Ritz in King's Road, North Point, was opened last week. At present, only the swimming pool is in use. A night club and a restaurant will soon be completed to make the New Ritz an attraction not only to tourists but also to the local population. The 25-metre swimming pool has glass panel under the water at one end; an underwater vision can be seen from the outside. The New Ritz will also include a hotel within a short time, managed by Mr. Dimond, ex-Hongkong Hotel.

In Aberdeen, a new floating restaurant will soon be ready for business. The exterior design has been taken from the famous Marble Boat in the Summer Palace in Peking. It will be known as the 'Sea Palace'. This will make a total of three floating restaurants in Aberdeen. The other two are 'Yu Lai Tai' and 'Tai Pak'. The new floating steel structure was recently completed at a cost of about \$700,000. There are two floors accommodating a total of 30 tables. There is also a bar and a waiting room. The kitchen is installed in a separate boat alongside the steel barge. It will serve European food in addition to Chinese dishes.

Dozens of new restaurants open every month.

Flats in Jointly-Owned Buildings—"The Hongkong and Far East Builder" has sounded a warning to purchasers of flats and shops in jointly-owned buildings. In an article entitled "Caveat Emptor—Let the Buyer Beware!" it said: The greatly increased population, with its resulting tremendous demand for all types of accommodation, had forced up the cost of land in desirable locations and kept rentals at a high level. This has led to two different kinds of private co-operative development:

firstly, the genuine co-operative, sponsored by mutual aid societies and welfare organisations, particularly of class or district groups; and secondly, speculative building in which organisations, mainly promoted by contractors, put up buildings with the object of selling them piecemeal as quickly and as remuneratively as possible. These latter "pseudo co-operatives" offer the contractor the advantage of quick and easy financing, for it is more difficult to find a single client for a large block of apartments than a number of people who will share the cost of a building by buying individual flats, shops or offices at what may appear a reasonable figure. They offer the buyer a share in a property in a location in which he alone could not afford to build, and, in some cases, short term payments that are an attractive alternative to rent.

As a result, a large number of real estate firms have sprung up offering a variety of office, shop and flat accommodation all over the Colony at prices ranging from \$5,500 to \$100,000 per unit—the average value being perhaps \$20,000. So rapidly has this type of development been taking place that a recent estimate places the total value of this new construction underway at \$100,000,000 with 5,000 units awaiting prospective owners. Some of these apartments are sold outright either before or after completion. Others, designed to attract those of more moderate means, are offered on terms requiring up to two years in which to complete payments. In the better class "pseudo co-operative" erected by a sound and responsible company, the company itself may undertake the management of the building on completion, or it may arrange an agreement whereby the unit purchasers bind themselves to co-operate to ensure that the building is properly managed. Such an agreement, distinct from the bill of sale and title to the apartment unit, is called a Deed of Mutual Covenant. An agreement of this kind theoretically gives the various unit owners a considerable degree of protection, and it is most desirable that all purchasers of units in housing blocks should make sure they have some such comprehensive document legally drawn up. Nevertheless, in actual practice its effectiveness must depend on the goodwill of participants. For example, a quorum of 20 per cent of unit owners who decided by resolution that certain work must be carried out might have difficulty in raising the necessary funds, since it means collecting a proportion from each and every unit owner. Although their Deed of Mutual Covenant may give them the legal right to recovery of any expenditure eventually, applying pressure on a signatory under the agreement to pay money into mutual fund could be a lengthy and expensive procedure. Such a position might or might not arise, but it is a problem and a danger, which every prospective investor must keep in mind.

In the first place, he must make sure that the company sponsoring the project is well financed and willing and able to cope with all its responsibilities. This applies particularly in the case of rental-purchase schemes. A buyer, who makes a partial or full payment in advance of the completion of the building, should be sure that the seller is in a financial position to complete it, otherwise he has very little chance of recovering his investment. Secondly, he should realise that as a co-owner he has certain responsibilities for the payment of rates and taxes, and for the upkeep and maintenance of the building, and perhaps for other liabilities. Complications may also arise from the fact that much of this type of construction is being financed by refugee capital from abroad, and that a fair proportion of such apartments are owned by "absentee landlords" whose agreement to the sharing of mutual expenses may be difficult to obtain when the need arises. Their tenants, the actual occupiers of the units, may be unwilling to participate in matters they consider their landlords' responsibilities. Differences of opinion are sure to arise with regard to what constitutes necessary repairs and maintenance expenses, and these can only be resolved by some sort of practical and enforceable working agreement involving the appointment of an authoritative committee in whom the administration of the building is invested.

Another obvious difficulty may be encountered in the changes of financial circumstances of the various co-owners. The bigger the building and the larger the number of co-owners the more these problems multiply. Another point the would-be buyer should bear in mind is the building boom in Hongkong appears to have reached its peak, and that rentals from now on will probably tend to decline. This will apply more especially

to those buildings of inferior design and construction in which poor planning of the apartments and the use of low-grade materials will lead to rapid deterioration in value. Such structures, especially in the poorer urban locations, are liable to degenerate into little more than vertical slums, and the money invested in them at present prices may be largely dissipated in high maintenance expenses and in the diminished value of the unit. The wiser purchasers of pseudo co-operative flats will satisfy themselves that the buildings are of sound design and construction, and in good locations. The co-owners of such buildings will have a better sense of their mutual responsibilities, and these buildings would be more likely to appreciate in value.

Above all, prospective purchasers should protect themselves by never entering into any agreement unless drawn up by solicitors, and preferably after consultation with their own legal advisers. We can visualise endless complications and disputes arising from haphazard methods of unloading building units on to unsuspecting buyers. Eventually some sort of control will be required to ensure full responsibility on the part of those promoting this type of development as builders and sellers, and on those buying the units into which the buildings are divided. It is in the interests of Government itself that such pseudo co-operatives work smoothly, since the collection of Crown rent, rates and taxes in buildings which have no proper organisation could become a very complicated process.

Reverting to the Deed of Mutual Covenant, this requires some further explanation. In a true co-operative, a group of people form themselves as members of a registered non-profit making association, appoint a committee in whom they invest executive and administrative powers, including the right to impose rules and regulations regarding payments of fees to cover maintenance and repairs, to collect monies, to regulate their conduct so as not to cause annoyance, and to impose penalties for non-compliance. In short, the committee, itself appointed by the members, acts as a ruling body for the benefits of the association. In the case of these pseudo co-operative projects where the promoters' only concern is the disposal of units as rapidly and as remuneratively as possible, and to divest themselves quickly of all responsibility in connection with the building, what happens to the purchasers is no concern of theirs. The more conscientious of them, however, while selling the units, have endeavoured to protect the interests of the tenants by getting them to sign an agreement to co-operate with the other tenants in the administration and maintenance of the building. This is the Deed of Mutual Covenant referred to. In itself it has some merit, but it is a very limited document since it does not really delegate authority or give automatic powers to impose penalties for non-compliance of its conditions.

A typical Deed of Mutual Covenant has following stipulations: (1) The purchaser-owner shall have exclusive ownership and use of his own premises. (2) The seller shall retain similar rights over any units unsold. (3) Both purchasers and sellers have common rights to use the roof, entrances, staircases, landings, passages and lifts. (4) These conditions shall hold for the period of the building's Crown Lease (and extensions, if any) subject to the special owners' meeting. (5) Each shall pay his due proportion of Crown rent, rates, taxes, water rates, insurance, and other outgoings in respect of the building, cost of cleansing, the maintenance and repair of the exterior and communal parts of the interior, including lifts, etc., rebuilding or reinstatement of the building or any part of it destroyed or damaged. (6) He must foot his own bills for maintaining internal fittings and fixtures, plumbing, windows and doors. (7) He can make any installations in his own premises which can be fixed and removed without structural alterations or damage. He cannot, however, make any structural alteration or remove or alter main, water, gas or steam pipes, electrical conduits or plumbing or anything which is part of the main services of the building or in any way prejudice the insurance of the building or allow his premises to be used for improper or illegal purposes, or cause a nuisance or annoyance, or partition the land. (8) He may dispose of his holding or rent it (but in the latter case he remains responsible for observation of the agreement). (9) Ten per cent of the unit owners can convene a meeting of owners to determine any matter of mutual concern, and over 20 per cent form a quorum. Such a meeting shall elect a chairman, and voting includes written proxies for absent members. Resolutions shall be by a simple majority,

(Continued on page 64)

FINANCE & COMMERCE

HONGKONG EXCHANGE
MARKETS

Date	T.T. High	T.T. Low	Notes High	Notes Low
30/6	\$580%	580	578%	578%
1/7		Holiday		
2/7	580%	580	578%	578%
3/7	581½	581	579½	578½
4/7	580%	580	578%	578%
5/7	580%	580	578%	578%

D.D. rates: High 579%; Low 579.
Trading totals: T. T. US\$3,500,000;
notes cash US\$575,000, forward US\$1,-
830,000; D. D. US\$360,000. Highest
and lowest rates in June: T. T. 581½
and 579; Notes, 580½ and 578½.

The market last week was very quiet. In the T. T. sector, general importers were good buyers while gold merchants also provided steady demand. Funds from Japan, Korea, and SE Asia were heavy. In the Notes market, speculators were quiet. Interest favoured sellers and aggregated HK\$3.80 per US\$1.00. Positions taken averaged US\$1½ million per day. The D. D. market was quiet.

Far Eastern Exchange: Highest and lowest rates per foreign currency unit in HK\$: Philippines 1.79—1.775, Japan 0.01425—0.01435, Malaya 1.88—1.875, South Vietnam 0.0714—0.0709, Laos 0.055, Cambodia 0.082, Thailand 0.2755—0.2746, Indonesia 0.0769—0.0714. Sales: Pesos 205,000, Yen 50 million, Malayan \$220,000, Piastre 7 million, Kip 4 million, Rial 4 million, Baht 2 million, Rupiah 220,000.

Gold Market

Date	High .945	Low .945	Macao .99
30/6	\$252	251½	
1/7		Holiday	
2/7	252½	251½	262 High
3/7	252	251½	
4/7	252	251½	Low 261%
5/7	252	251½	

Opening and closing prices were 251½ and 252; highest and lowest, 252½ and 251½. Highest and lowest in June were 252½ and 249½. The market last week was very quiet and there was practically no change in rates. Interest for change over favoured sellers and aggregated HK\$0.76 per 10 taels of .945 fine. Trading averaged 4,400 taels per day and amounted to 22,000 taels for the week, in which 8,150 taels were transacted in cash (1,350 taels listed and 6,800 taels arranged). Speculative positions averaged 5,100 taels per day. Imports from Macao amounted to 9,000 taels. One shipment of 32,000 fine ounces reached Macao in the week. Exports totalled 6,500 taels (3,500 taels to Singapore and 1,000 taels to Rangoon). Differences paid for local and Macao .99 fine were HK\$12.20—12.00 and 11.30—11.20 respectively per tael of .945 fine. Cross rates were US\$38.03—38.01 per fine ounce; 16,000 fine ounces were contracted at 38.02 c.i.f. Macao. US double eagle old and new coins quoted \$269 and 234 respectively per coin, English Sovereigns \$59 per coin, and Mexican gold coins \$275 per coin. Silver Market: 400 taels of bar silver traded at \$5.50 per tael, and 500 dollar coins at \$3.55 per coin. Twenty-cent silver coins quoted \$2.70 per five coins.

HONGKONG SHARE MARKET

HONGKONG SHARE MARKET

Last week's market opened firm but trading during the first half week was limited to small parcels of Utilities, Lands, Hotels and a few other popular shares. Buyers insisted on lower prices while sellers still hoped for higher rates. During the second half week Utilities, Stores, Hotels, Lands, Providents and Docks dipped slightly under light scale profit-taking. Hotels however recovered towards weekend and gained 10 cents on the week. Star Ferries were quiet but steady while Trams managed to recover all the loss of the week on Friday.

Telephones were very firm at \$27.80 during the first half week but dipped

sharp to \$26.20 on Friday after the Company had announced that it would issue a million \$10 shares plus a premium of \$5 a share. In other words, the Company is asking its shareholders to raise a sum of \$15 million. The news was not favourably received although the Company had assured that a dividend of \$1.50 would be maintained provided there is no unforeseen delay in bringing new equipment into service.

Closing rates for most shares were lower than those for the previous week but the undertone was steady. Turnover on Monday amounted to \$354,000; Wednesday, \$232,000; Thursday, \$458,000; Friday, \$1,391,000. The market was closed on Tuesday.

Share	June 27	Highest	Last	Week's Lowest	Rate	Closing	Up & Down	Dividend	Estimated Yield (%)
HK Bank	\$795	\$795	\$790	\$790	—	—	—\$5	\$42	5.32
Union Ins	75	75.50	75b	75b	steady	—	—	\$3.40	4.53
Lombard	29a	—	—	29a	quiet	—	—	\$2	6.90
Wheelock	6.20	6.20	6.15	6.15	—	—	—5c	75c	12.20
Yangtsze	5.90b	6.10a	5.85b	5.85	—	—	—5c	65c	5.38
Allied Inv	4.65s	4.60	4.575	4.65s	steady	—	—	25c	11.11
HS & FE, Inc	10.60s	—	—	10.60s	quiet	—	—	80c	7.55
HS Wharf	103	103n	100b	103s	—	—	—75c	\$9	8.74
HS Dock	43.25	43.25	42.50	42.50	—	—	—40c	\$1	4.71
Provident	12.60	12.50	12.10b	12.20b	—	—	—25c	\$2.40	8.19
HK Land	33.50	33.25	33.25	33.25	—	—	—	—	7.22
Realty	1.70b	1.75s	1.70b	1.70b	steady	—	—	15c	8.82
Hotel	22	22.10	21.80	22.10	+10c	—	—	\$1.50	6.79
Star Ferry	115	115n	114b	115n	steady	—	—	\$9	7.83
Yamauchi	99	99.50	98	98	—	—	—\$1	\$7.50	7.65
Trams	26.90	27.10s	26.70	26.90	steady	—	—	\$1.90	7.06
Light	18.20	18.20	18	18.10	—	—	—10c	\$1.10	6.08
Electric	28.60	28.60	28.30	28.30	—	—	—30c	\$1.90	6.71
Telephone	27.80	27.80	26.20	26.60	—	—	—\$1.20	\$1.50	5.64
Cement	23.30	23.50s	23.10	23.20	—	—	—10c	\$3	12.93
Dairy Farm	17.70	17.70	17.30	17.60	—	—	—10c	\$1.80	10.23
Watson	11.50	11.70s	11.30b	11.40	—	—	—10c	\$1	8.77
Amal Rubber	1.525	1.575	1.55	1.575	—	—	+5c	20c	12.70
Textile	4.10	4.15s	4b	4.10n	steady	—	—	60c	14.63
Nanyang	7.80	7.70n	7.70s	7.70n	quiet	—	—	\$1.10	14.28

TRADE DEVELOPMENTS IN JUNE

CHINA TRADE

Britain and a number of other countries of COCOM continued to urge US and other opposing members of the committee to further relax the control of strategic exports to Communist countries. At end of the month it was disclosed that agreement to relax restrictions governing trade with USSR and other Communist countries would soon be announced by the 15-nation consultative group in Paris. About 80 items will be freed from control. These will include industrial and agricultural equipment, motor cars and trucks, certain types of metals and chemicals, electronic items and machine tools. Three broad types of goods remain subject to tight control. These are: (1) machines that could be used for making weapons; (2) equipment of an advanced technical nature; and (3) key materials and goods urgently needed by the Communist bloc.

Meanwhile, Peking boasted that its foreign trade in 1958 would reach 11,000 million yuan (about US\$4,400 million). Peking also began to build up a pool of chartered cargo ships in Europe at cut rates to prepare for expanded trade with the West. This development was wel-

comed by western tramp shipping companies on account of the recent slump in world trade.

China/UK—China ordered £1 million worth of small tractors from UK. The order was placed with Massey-Harris-Ferguson of Coventry. From a Lancashire firm (Leyland Motors) China ordered a super heavy duty tipping truck. (At the beginning of this year, Peking bought a Leyland 44-seater under-floor engined single decker bus for experimental use.) In Peking, an exhibition of £20,000 worth of Marconi radio and radar equipment attracted intense interest of Chinese officials; they were particularly keen on the 40-mile range radar set. Peking had offered to buy the complete exhibition including embargoed radar and measuring instruments.

Chinese trade representatives also established direct contacts with firms in Britain for the purchase of electric locomotives, metals, instruments, chemicals, photographic supplies and various raw products. According to a London metal merchant however Britain has already lost valuable Chinese orders to European suppliers. His firm recently ordered £5.5 million worth of tinplate and steel

sheets from France, West Germany and Belgium for China. These orders, covering a total of 100,000 tons of steel products, were switched to Europe from Japan after the recent break in Sino-Japanese trade relations. Deliveries will begin within three months as requested by Peking. British steelmakers could not meet this delivery date because they were too busy with home orders from the motor and electrical industries. European export prices were also substantially below those of Britain.

In Peking, the Director of the West European Department of the Chinese Foreign Trade Ministry was very optimistic about the future of Sino-British trade despite the Western embargo on a number of useful products. He disclosed that China was particularly eager to obtain from Britain certain embargoed items such as radar equipment. He admitted however that the problem was to increase exports to Britain so that China would have the purchasing power to buy more British goods.

China/Europe—A barter transaction totalling £5 million was concluded in Peking between Chinese officials and trade representatives from Austria and Switzerland. An Austrian firm will export fertilisers to China before the end of this year. The amount will be equivalent to about 20 per cent of Peking's 1958 total fertiliser imports. In exchange for Austrian fertilisers, China will supply a Swiss firm with various kinds of raw materials.

A Sino-Norwegian trade agreement was signed in Peking providing for the exchange of a wide range of goods and granting each signatory most favoured nation treatment in custom duties and shipping.

From Czechoslovakia, China ordered 3,000 tractors; deliveries will be completed before the end of this year. Czechoslovakia is also supplying China with equipment for power stations and machinery for sugar factories. The order for power plants involves four complete sets to be delivered between 1960/61. In the case of sugar machinery, Czechoslovak specialists will also design the buildings and supervise the installations.

China/Japan—Peking officials had not only suspended trade talks with Japanese businessmen but also refused to extend the Sino-Japanese Fishery Agreement which expired on June 12. Peking charged that the Kishi government had liquidated the basis of friendly cooperation between Chinese and Japanese fishery circles. (The fishery agreement was signed in 1955 and was valid for one year but was extended in 1956 and 1957.) An official of the China Committee for the Promotion of International Trade declared, "There is absolutely no possibility of resuming Sino-Japanese trade so long as the Kishi government remains hostile to China."

In Japan, a large number of merchants urged the Government to settle the 'flag' issue to the satisfaction of Peking in order to reopen the 'badly needed trade' with China. They demanded that the Government should adopt some measures to give relief to companies that are undergoing much hardship on account of

the suspension of the China trade. The International Trade and Industry Minister, Mr. Tanasaki, also warned that Japan could not afford to continue its wait-and-see policy. To cope with the critical situation, he intended to take measures to reopen trade with China from a political angle.

Early in the month, Mr. Akagi (Chief Cabinet Secretary) said in Tokyo that he could prepare the ground for Japan's diplomatic recognition of China. The Foreign Minister, Mr. Fujiyama, however, indicated that he had no intention of recognising China at present. He also ruled out the possibility of sending an official envoy to China to clear up the deadlocked relations between the two countries. According to Prime Minister Mr. Nobusuke Kishi, there is no change in Japanese Government's policy of increasing trade and cultural exchange with China within the framework of the fact that Japan has not normalised relations with China.

China/SE Asia—A five-man Thai trade delegation went to Peking to survey trade prospects and to discuss the problem of Chinese economic assistance to Thailand. Peking's economic aid to Phnompenh led to heavy shipments of Chinese supplies and equipment to Cambodia. The Supreme Council of Planning and National Development of Cambodia decided to distribute Chinese aid commodities to consumer cooperatives, to be sold to villagers at very low prices.

From Djakarta, China bought 30,000 tons of Java sugar at £20/2/0d per long ton fob. Deliveries will be made in July and August. In Singapore, the China-ware Merchants Association formed a special organisation to promote imports and sales of Chinese enamelware in Malaya. It acts as Singapore agents of the China National Sundries Export Corporation of Shanghai. During the month, the first consignment of 1,000 cases of enamelware, worth M\$80,000, from China reached Singapore. Last year, Malaya imported M\$1.8 million worth of enamelware from Hongkong. Malaya's purchase of enamelware from here since January this year has been considerably reduced.

Besides promoting trade with USSR and other Communist countries, Peking is pushing its trade development programme in SE Asia. China is now sending cement, paper, canned food, structural steels, window glass and other construction materials, cotton goods and other consumer goods at very cheap prices to Singapore, Malaya, Thailand, Cambodia, Ceylon and Indonesia. According to reports from Tokyo, Communist China is resorting to dumping practices on SE Asian markets in an effort to obtain critically needed foreign exchange. Outstanding examples of the Chinese dumping practices are cotton products and cement which Peking is offering at prices about half the world's level. Peking however charged that Japan is persisting, under the cover of economic diplomacy, in a policy of economic expansion in SE Asia and the Near and Middle East: "The purpose of this economic expansion

policy is to reestablish the greater Eastern Asia co-prosperity sphere, disrupt unity between the neutral Asian and African countries and the socialist countries, and pave the way for the enslavement of the Asian and African peoples by US and Japanese monopoly capital."

China and Other Countries—Although Peking claimed that China was second only to Soviet Russia as a wheat producing country in the world, it had to order about 10,500 tons of wheat from Australia. This is the first wheat order placed by China with Australia; the two countries have not yet established diplomatic relations. In Sydney, the President of the Australian Dairy Farmers Federation said that Australia would offer large quantities of butter and other dairy products to China while in Melbourne, a Chinese trade delegation representing China's animal by-products, tea, textiles, silk, foods and other Chinese industries was promoting exports of Chinese goods to Australia.

In New Delhi, a trade agreement between India and China was signed providing for a two-way trade totalling 29 million rupees during the six months from May to October. India will export cotton, pepper, tobacco and other products in exchange for caustic soda, newsprint and other industrial materials from China.

In Karachi, a barter contract was signed between China and Pakistan covering 150,000 long tons of Chinese coal in exchange for an equivalent value of Pakistani cotton.

Two Syrian traders went to China during the month and bought £2 million worth of Chinese textiles, machinery and sundry goods.

HK IMPORTS & EXPORTS

Hongkong's entrepot business was slightly better than in May. Demand from Japan, UK and Europe for produce improved but inadequate supply here restricted the volume of business. China bought more metals, pharmaceuticals and chemicals from here but low buying offers handicapped transactions in most cases. Orders from SE Asia for European, British, Japanese and American goods however still covered only a selective number of items; quantities involved were usually very small.

Total exports in June at \$235.1 million were \$4.6 million higher than the record for the previous month. Actual improvement in re-exports however was \$11.2 million higher but a drop of \$6.6 m in exports of HK manufacturers in June partly offset the gain.

Commodity prices were steady in general because dealers here had assumed a very cautious attitude in booking supplies from UK, Europe, US, Japan and other sources. Imports during June amounted to \$356.1 million, representing a drop of \$14.1 m from \$370.2 m in May.

HK/China—Although China sent here a large number of enquiries for chemicals, metals and other essentials, its purchases from the local spot market were still insignificant. Most buying offers from Peking, Shanghai and

Canton were too low to interest local dealers.

Imports of foodstuffs and light industrial products from China however continued to mount. Chinese canned goods can now be obtained from almost every store in the Colony. Prices for canned ham, fish and a large variety of delicacies are much cheaper than similar local and Taiwan products. The majority of local population do not care whether a can of fish is from the Mainland or from Taiwan; they choose the cheaper of the two.

Heavy regular imports of foodstuffs from China are indirectly preventing the cost of living here from skyrocketing in spite of the bursting population. On the other hand, the ever increasing imports of Chinese light industrial products, particularly cotton goods, to the local market at ridiculously low prices are providing serious competition to similar HK products both in local sales and in exports to Europe and SE Asia. Many items of Chinese products are so cheap that if a blockade-runner can smuggle them back to China and sell them to consumers on the Mainland, his profit will be incredibly huge.

Mainland leather shoes are selling here at prices ranging from \$2 to \$15 a pair, much lower than similar shoes made locally. An exhibition of Chinese silk and linen embroidered goods was held in the Colony. Items on sale included blouses, underwear, pajamas, dressing gowns, shirts, neckties, scarfs, napery and handkerchiefs. Girls' and boys' embroidered cotton pajamas were only \$3.50 per set and silk fancy blouses, \$3.20 a piece.

Chinese cotton goods are flooding the local market. In addition to the China Products Company on Des Voeux Road in Hongkong, another retail centre will be set up in Kowloon to handle the sale of Chinese towel, knitwear, cotton cloth, shirts and other cotton goods. Several European firms here are reexporting Mainland napery, pillow cases, bed sheets, shirts, blouses and other garments to Europe. These cotton goods from China are better in quality and much cheaper in price than similar local products.

Canton also marked down c.i.f. Hongkong prices for sugar to undersell Taiwan products and lowered indents for cement to compete with Japanese brands. Consequently, imports from China are being maintained at more than \$100 million every month. Pro-Peking traders and inexperienced firms here are now earnestly promoting reexports of Mainland products to overseas markets. The majority of local importers and exporters however know from experience that such entrepot transactions usually do not last very long because as soon as an item is established in an overseas market, Peking deals direct with the buyer without going through HK.

HK/Japan—Imports of cement, cotton textiles, metals, paper, rayon products, seafood, toys, electrical appliances, flour and sundries from Japan declined considerably when compared with previous months. The bulk of these imports was absorbed by local retailers. Japanese

electric fans retained very strong local demand. Japanese refrigerators also appeared on the market this year. To promote the sale of Japanese knitting machines, the Sang Trading Company of Hongkong (Far East Sole Agents of Inamoto Knitting Machine Company of Osaka) staged an exhibition of Inamoto knitting machines in Kowloon. Several local factories are already using Inamoto machines which are equipped with individual motors and have many new features designed to increase the efficiency of the unit.

Reexport of Japanese merchandise to SE Asia remained slow because Japan had increased the volume of direct shipments to markets in this area. The Mitsui Line started a new regular cargo service to SE Asian ports to handle Japan's increased direct trade with SE Asia. The first ship (5,250-ton Asateru Maru) sailed from Yokohama for Ceylon and Malaya early in the month. The company will operate nine ships on this route. The ships will go from Japan to Colombo via Hongkong, Singapore, Penang and may call at Bangkok, Saigon, Manila and other ports according to cargo availability.

Exports of produce and scrap metals from here to Japan remained on a low level. The disruption of trade between Japan and China did not stimulate Japan's purchases from here to any appreciable degree. There were many enquiries from Japan for oils, oilseeds, beans and other popular staples but purchases from here were restricted by the lack of sufficient supply to meet the demand.

HK/UK—Lancashire manufacturers and some British Labour MPs renewed their attack on HK cotton industry during the month. The so-called 'cheap labour' remained the target of attack. British Labour MPs appeared to be deeply concerned about the well-being of HK workers! They wanted HK mill owners to shoulder higher labour cost so that HK goods could not compete with Chinese and other products in UK and other markets. During the cotton debate in the House of Commons, Mr. Harold Wilson, former Labour President of the Board of Trade, urged the Government to set up a buying commission to regulate textile imports, to send a minister to HK to negotiate an agreement and to deal with the problem of labour conditions in HK.

The Government however stood firm against requests from Lancashire to impose restrictions on cotton imports from HK, India and Pakistan. In other words, Britain will continue to admit duty free and in unlimited quantities imports of cotton piecegoods provided that 25 per cent of the value of goods is derived from Commonwealth materials and labour content. (Goods that cannot comply with the qualification are required to pay an ad valorem duty of 17.5 per cent and may be subjected to import quota.) Sir David Eccles, President of the Board of Trade, replying for the Government said he was very optimistic of an agreement for Pakistan to restrict her cotton shipments to Britain in which event the Cotton Board

would return to HK and continue the negotiation with HK manufacturers for a voluntary export restriction.

According to Mr. C. C. Lee, Chairman of HK Spinners' Association, local textilemen are ready to sit down and negotiate with Lancashire interests if UK reaches an agreement with the textile industries of India and Pakistan. Mr. D. Y. Pong, Chairman of HK Cotton Merchants' Association, is still opposed to the fixing of a ceiling on HK's textile exports to UK. He said, "Even if all spinners here stop operating their total of 320,000 spindles, Lancashire will have little benefit because the number of spindles here is only slightly more than one per cent of the total of spinning machines in UK. Local textile workers receive relatively higher wages than workers in other industries here. The clamour for raising their scale of wages will only result in forcing them out of employment."

Development during the month shows that Lancashire is not only unable to compete with HK in the production of cotton cloth but also finds it difficult to face the competition from HK rayon cloth. The Rayon Weaving Association there alleged that larger imports of rayon cloth from the Far East (chiefly from Japan and HK) were causing a fresh wave of alarm in the Lancashire textile trade. The Association pointed out that Japan had imposed quota restrictions on shipments of rayon goods to UK but there was nothing to stop HK from shipping unlimited quantity of this item to UK. Local textilemen are now convinced that UK textile manufacturers want to restrict not only imports of HK cotton grey cloth but also shipments of other HK textiles to Britain.

On the other hand, UK importers continued to order substantial quantities of cotton piecegoods from here. Total volume however recently declined not on account of Lancashire's agitation but due to the drop in reexport of finished cloth from UK to Europe and other markets. Demand from UK for other HK products (shirts, gloves, shoes and other consumer items) remained steady. Well known British department stores such as Lewis's, Harrods and Rachiems have appointed their own buying agents here to handle the purchase of HK manufacturers.

In spite of steady exports to UK, HK still has a trade deficit of about \$10 million every month. Local dealers and manufacturers are still importing large quantities of consumer goods and factory supplies from UK. Imports of consumer goods declined slightly during the past two months on account of slower re-exports but local demand for factory supplies and building materials and equipment remained strong. The Arcon Group, the largest manufacturers of prefabricated buildings in UK, have extended their overseas service to HK. Their representative in the Far East, Mr. Kenneth U. Thompson, will be responsible for technical advice, trade contacts and post-sales service in HK and other countries in the Far East. Following firms are members of the Arcon Group each supplying the components in

which they specialise: I.C.I. (alloys and plastics); United Steels (structural steelwork); Stewarts and Lloyds (tubular steel components); and the Crittall Manufacturing Company (metal windows and doors).

HK/Europe—Cargo movements between HK and Europe were very active throughout the month. Imports of paper, metals, glass, textiles, chemicals, dairy products, watches, instruments, wines, provisions, perfumes and other consumer goods amounted to about 12,000 tons and came chiefly from West Germany, Switzerland, Netherlands, Belgium, Italy and France. Reexports of European goods to SE Asia and China remained quiet.

Exports to Europe totalled only about 8,000 tons and consisted chiefly of HK manufactures. Early in the month it was rumoured that Bonn might request HK to limit export of low grade textiles to West Germany. The Economics Ministry in Bonn however officially denied the report. Actually, there is no need for Germany textile manufacturers to ask HK for a voluntary limitation of exports because the German Government can refuse the granting of import licences for this item if and when it is necessary.

HK/US—Exports of HK products to US were very active. In addition to popular items such as rattan ware, plastics; cotton textiles, garments and frozen prawns there were yachts, wooden junks, hurricane lanterns, watch cases, footwear and an ever increasing variety of handicrafts. Export of rubber shoes however will be adversely affected by new import restrictions there on this item. HK rubber footwear manufacturers have requested the US Government to refrain from introducing the new restrictions; but it is doubtful whether Washington would consent.

On the whole, exports of local manufacturers to US are steadily increasing but the volume is still much below imports from US. Local dealers are importing ever more American durable and staple consumer goods for local consumption. American air conditioning units are enjoying an unexpected strong local demand this year. First shipments of several well-known brands are already sold out. More people are considering an air conditioning unit as a necessity instead of a luxury. American summer wear including suit materials of synthetic fibres are becoming more popular than British textiles. In the case of canned goods and other provisions, the percentage of American goods on the shelves of local stores is steadily increasing.

HK/US trade at present is leaving US with a surplus of about \$15 million every month. HK's invisible earnings of US dollars are improving with more American tourists coming here but on the other hand more local businessmen are sending funds to US for safe-keeping as well as buying American shares in the local market. A share broker here claimed that he alone handled about US\$1 million worth of American shares for local investors every month. He also estimated that the business will increase during the next few months because prices for American shares at

present are very low and that buyers will rush for popular shares before the anticipated year-end upturn in quotations.

To handle the increased volume of exchange operations between HK and US, the Irving Trust Company of New York appointed Mr. Eric P. Anderson as representative for the Far East with his headquarters in HK (8, Queen's Road Central).

HK/Thailand—Exports to Thailand totalled about 8,000 tons consisting mostly of structural steels, building materials, paper, pharmaceuticals, chemicals, cotton textiles, sundry provisions and other consumer goods; Chinese Mainland products constituted over 50 per cent of the tonnage. Bangkok last month cut purchases from here partly on account of weak commodity prices on Thai markets and increased taxes on a number of imports there. The expansion of direct trade between Thailand and China however was the chief cause of the drop in shipments from here to Bangkok.

Local dealers curtailed imports of rice and other staples from Thailand during the month on account of increased cost resulted from the advance in exchange rates here for Thai Baht. In the case of rice, increased indent quotations from Bangkok further discouraged dealers here from booking heavy supplies.

HK/Indonesia—Djakarta bought only small lots of cotton textiles, paper, chemicals, sundry provisions, foodstuffs and other essentials from here. On account of the civil war there, shipments to Djakarta and other Indonesian ports were few and irregular. Shipping services between HK and Djakarta improved towards monthend but cargo movements to and from Indonesia remained slow. Importers there considered replenishments from HK too expensive because exchange rates for HK dollars in Djakarta continued to advance. Furthermore there had been more direct shipments of cotton textiles and other consumer goods from China to Indonesia recently at prices much cheaper than HK could offer. Djakarta also bought £217,000 worth of coarse textiles (4 million yards) from USSR and large quantities of sundry goods and cotton textiles direct from Japan.

The President of the Indonesian Ocean Lines came here early in the month to survey the possibility of buying or chartering five 2,000/5,000-ton cargo vessels. These ships will be placed on the Indonesia/Bangkok/Rangoon/Singapore/Malaya/Japan/Australia route. Shipowners here were not keen in sending their vessels to Indonesian waters and were pessimistic over the selling of ships because the company was also negotiating the purchase from Japan.

HK/Malaya—Exports to Singapore Malaya exceeded 10,000 tons. Transhipments of foodstuffs, cotton textiles, metalware, paints, plastics and sundries from these two entrepot stations to Indonesia remained active throughout the month. Exports of enamelware, vacuum flasks, low grade cotton cloth and a number of other HK manufactures declined because production of these

items in Singapore and Malaya had improved in quality and increased in volume. On the whole, exports to these two destinations are gradually dropping. In addition to cheap Chinese products, large quantities of Japanese goods are flooding Singapore and Malayan markets providing serious competition for HK manufactures. Limited purchasing power of consumers in Indonesia also discouraged traders in Singapore and Malaya from booking too much supplies from here.

HK/Philippines—Shipments from here to Manila improved during the first half month because authorities there had allocated more foreign exchange for various essential imports such as metals, cotton goods and beans. The improvement however was not sustained although Manila had obtained a credit of US\$75 million from Washington for financing private and public development projects in the Philippines. Traders here believe that Manila will procure most supplies direct from US and other manufacturing countries.

Exports of Chinese produce from here to Manila are still handicapped by restrictions imposed by authorities in the Philippines. However, according to reports from Manila, Chinese staples and products still found their way into the Philippines. There is no efficient way at present to prevent misdeclared goods from entering the Philippines from HK and other entrepot centres. Unscrupulous traders here and in other places can substitute goods of Chinese origin for other products after obtaining documents from Philippine Consulates; Manila has to inspect every case and package of imports in order to plug the loophole.

To stop the illegal entry of untaxed merchandise (especially luxuries), Manila also maintained strict restrictions on personal baggages carried by Filipinos returning from HK and other ports. But a large number of baggages carried by tourists to Manila still contained undeclared goods. In one of the seizures made by Manila Customs, two leather trunks contained 70,000 drug tablets in addition to several hundred fountain pens, 300 pairs of nylon stockings and large quantities of cosmetics.

HK/Korea—Demand from Seoul covered chiefly paper; interest was centred on a few items and quantities involved were small. Low buying offers from Seoul handicapped transactions in most cases. Shipments of woollen yarn to Korea were resumed; most consignments were booked before June but shipments were delayed on account of import restrictions in Korea. Seoul announced in mid-June that D/P imports of this item would be allowed if covered by import applications submitted to the Government before the end of May. Applications submitted after May were rejected.

Imports of cotton yarn from Korea slowed down because the local market for imported yarn was very weak. Seoul announced that about US\$5 million worth of cotton yarn would be shipped to HK before the end of this year but dealers here doubted that imports from Korea could reach this figure.

HK/Taiwan—Taipei announced following conditions under which private holdings of foreign currency may be used for imports into Taiwan: (1) The imports must be within the list classified by the Government as permissible. (2) The imported goods must be consigned either to the Central Trust of China or the Taiwan Supply Bureau, both official agencies. (3) The goods will be sold after the importers' consent to the sale price has been received; the transaction to be exclusively in Formosan currency. (4) The proceeds will be deposited in the Bank of Taiwan for a minimum period of six months. (5) The importer will receive interest at 1.35 per cent per month.

Imports of fruits, vegetables, ginger, cement, starch, sugar, tea and other products from Taiwan amounted to about 2,000 tons. Consignments of sugar were not as heavy as during the previous month while imports of tea increased after the harvest of new crops there. Taiwan's purchases from here were limited to small lots of paper, chemicals, pharmaceuticals, dairy products, photo supplies and scientific instruments. Enquiries from Taipei for various supplies were keen but transactions were handicapped by low buying offers in most cases.

HK/Cambodia—Exports to Cambodia totalled about 2,000 tons consisting chiefly of textiles, enamelware, toys, metals, paper and other merchandise bought from here in May. Importers in Phnompenh purchased only insignificant quantities of garlic, tea and HK manufactures from here in June because authorities there had tightened import restrictions to cut spending in foreign exchange.

Local dealers curtailed imports of maize, beans, feathers and other staples from Cambodia because cost had advanced too much. Rice imports were suspended because authorities there had the issuance of export licences for this time. Imports of rice, beans and other staples may improve in the near future if authorities there adopt new measures to encourage exports in order to earn more foreign exchange. There is however no immediate prospect of increasing exports from here to Cambodia because under the cover of the so-called "economic aid" programme, Peking is sending large quantities of consumer goods to Phnompenh.

HK/Laos—Demand from Laos for consumer goods and industrial supplies remained weak throughout the month. Vientiane bought only insignificant quantities of canned food, cigarettes and other sundry items from here. Demand from this source will remain uncertain.

HK/Vietnam—Saigon limited purchases from here to small quantities of medicinal herbs and other essentials. The lack of sufficient foreign exchange there will continue to restrict procurements from the local market to a minimum.

HK/Burma—Exports to Rangoon consisted chiefly of wheat flour, provisions, sundry provisions, fruits, vacuum flasks and other HK manufactures. Most orders were booked in May and shipped

there under open general licences issued there for the second quarter. With the exception of wheat flour, other consignments were very small. Rangoon also enquired for cotton yarn, groundnut oil, menthol crystal and used newspaper but most transactions fell through on account of low buying offers and the lack of sufficient foreign exchange there.

HK/Ceylon—Shipments from here to Colombo consisted mostly of HK manufactured cotton textiles, enamelware, torch, hurricane lantern, rainwear, aluminumware, plastics and sundries. Quantities involved were very small because Ceylon procured the bulk of its supply of light industrial goods from China under existing trade agreements between these two countries.

HK/Australia—Imports from Australia declined because dealers here curtailed the booking of wheat flour on account of the weak local market. Imports of dairy products, frozen meat, hide, fruits, and wooltops remained steady. During the month HK also imported 97 ponies from Australia.

In exports, HK products constituted over 50 per cent of the tonnage. Principal items included cotton goods, plastics, furniture, shirts, napery, embroideries, vacuum flasks and handicrafts. Demand from Australia for HK manufactures is improving. Leading department stores in Australia such as David Jones, Charles Birks, Finney Isles and Blythes have appointed buying agents here to handle the purchase of various HK products for Australian consumers. To further stimulate exports of HK products to Australia, local factories will participate in next year's Melbourne International Trade Fair. An area of 2,000 square feet for a HK stand has been booked.

HK/Africa—Exports from here to West Africa amounted to about 5,000 tons but shipments to East and South Africa totalled only about 2,000 each. Importers in British East Africa cut purchases from here because import duties there on items such as blankets, rubber footwear, cardigans, shirts, singlets and piecegoods had been raised to protect its domestic industries. Exports to South Africa declined because authorities there did not have enough foreign exchange for various purchases. Prospects of increasing exports to French West Africa are also dull; authorities there may even stop the issuance of import licences in the near future on account of shortage of foreign exchange there. Demand from African markets for HK manufactured goods is also seriously affected by large quantities of cheap Chinese and Japanese light industries products in these markets.

HK COMMODITY MARKETS

Produce—The market was active with enquiries from overseas buyers but the volume of business was small. Demand from Japan, UK and Europe covered a large number of popular items but dealers here could not get adequate supplies from China. Replenishments from SE Asia were limited to small quantities of beans, maize, sesame and feathers; indents from Cambodia, Viet-

nam and other sources also advanced making reexports to Japan and other markets less profitable than before. Prices in the local market were steady in general. Short supply from China and SE Asia pushed prices up while low buying offers from Japan and other buyers kept prices from creeping higher.

In addition to oilseeds, beans and feathers, demand from Japan and Europe covered raw silk, jute, tea, menthol crystals and camphor products. The market was also kept active by demand from Australia, Canada, India and Pakistan for woodoil, cassia, gallnut, camphor products, turpentine, resin, galangal; and from SE Asia (chiefly from Malaya and Singapore) for garlic, dried chilli, beans and alum.

Metals—Exports to SE Asia (chiefly to Singapore, Malaya, Philippines, Thailand) were restricted to small lots of structural steels, iron pipes, steel plates and base metals. China was keen on iron pipes, scrap copper and brass, steel plate, blackplate and tinplate waste waste and zinc sheets but quantities involved were small because stock here had dwindled. Buying offers from China were also too low to interest local dealers to book more supplies from Japan and Europe. Demand from Japan for scrap metals was not very keen; Japan procured the bulk of its supply from US. Prices of most popular items were firm throughout the month because local demand for structural steels and factory supplies remained strong.

Paper—Exports to Korea and SE Asia were limited to small consignments but prices were very steady during the first half month because (1) stock here dwindled, (2) indents from Europe and Japan remained firm, and (3) supply from China curtailed. Towards month-end however the market turned easier because Japanese indents were fractionally lower and cif offers from Europe for some items also dipped slightly. There were no sharp price drops because market quotations here for many items were still lower than European indents; supply from China was still restricted to small quantities.

In spite of the fact that Seoul had allocated US\$100,000 for paper imports, orders reached here covered only small lots of woodfree, pure sulphite, cellophane, glassine and duplex board. Buying offers from Seoul were also too low in most cases to interest local dealers. Taiwan enquired for a large number of printing, packing and writing paper but many transactions fell through because importers there considered prices too expensive. Demand from Thailand, Singapore, Cambodia, Indonesia covered only tissue, glassine, cigarette paper and straw board mostly of Chinese and Japanese origins; quantities involved were insignificant. Local demand for poster, sulphite, bond, glassine, duplex board, chip board and straw board remained steady but consumption was too small to stimulate the market.

Industrial Chemicals—China suddenly returned to the local market for a large number of items including bronze powder, titanium dioxide, urea, hydrogen peroxide, gum copal, tartaric acid, acetic

acid and sodium bichromate. Orders however were only for small lots and most transactions fell through on account of low buying offers. The market was otherwise very quiet. Chinese chemicals such as soda ash, sodium bicarbonate, sodium nitrate, sodium silicate, caustic soda, lithopone, glycerine and iron oxide retained steady local demand but heavy supply kept prices at a very low level.

Pharmaceuticals—Demand from local pharmaceutical manufacturers for various fine chemicals was steady throughout the month but the volume involved was small. Exports were limited to insignificant quantities of penicillin preparations, sulfaguanidine, quinine, saccharine crystal, and aspirin powder to SE Asia (chiefly to Singapore, Malaya and Thailand); dihydrostreptomycin, sulfadiazine, aspirin, phenacetin, quinine, saccharum lactose, saccharine crystal, amidopyrin, vitamin B1 and santonin crystal to Taiwan and Korea; and salicylic acid, gum tragacanth powder, gum acacia and caffeine alkaloid to China. Low buying offers and inadequate stock here restricted the volume of turnover. Dealers here still do not wish to stock up various popular items because demand from China, Korea, Taiwan and even SE Asia remains unpredictable.

Cotton Yarn—Imported brands were very quiet on the local market. Pakistan yarn was weak at the beginning of the month although indent was very firm; towards monthend it further dipped because cif quotation was marked down. Indian yarn eased in sympathy with

lower indent. Japanese brands were steady at the beginning of the month on account of firm indents but as quotations from Japan were marked down towards monthend, prices here also dipped. Chinese yarn remained weak although Indonesia bought several small lots from here. HK brands however were firm. At present, most local mills still have enough orders from UK, Indonesia, Thailand, Philippines and local weavers and knitters to keep their spindles whirling for the next few months. In spot transactions however HK yarn turned weak towards monthend under the pressure of keen competition from imported brands. Local weavers and knitters also temporarily suspended purchases of HK yarn because most spinners had stopped granting credits in order to close their books for the semi-annual balance of accounts. Many spinning mills here have adopted a more cautious attitude in selling yarn to local weavers and knitters on credit because several weavers had recently declared bankrupt. Export of HK yarn to SE Asia may further drop in the second half of 1958 because China and Japan are shipping large quantities of fine and coarse yarn to Thailand, Cambodia, Indonesia and other SE Asian markets.

Cotton Piecegoods—Reexports of Chinese and Japanese grey cloth to SE Asia failed to improve; prices here continued to drop during the month but the dip was not sharp. Prospects of better demand from SE Asia are dull because Indonesia, Malaya and Singapore procured ever more supplies from China

and Japan direct while Thailand and Philippines curtailed purchases from here on account of the increased output of grey cloth by their domestic industries. HK grey cloth retained steady demand from UK, Africa, West Germany and local processing mills. Prices on the local market remained firm because spot cargo was still thin. Large mills reported that they still had enough orders on hand to keep their looms running for a few more months but new purchases by UK and other buyers were slowing down. Exports of HK grey cloth will probably decline in the second half of this year.

Rice—The market was quiet throughout the month. Prices were steady because consignments from Thailand were curtailed, supply from China was limited to small quantities and imports from Cambodia cut. Supply in HK however was more than adequate to meet the local demand. During the second half month, prices were slightly lower because Bangkok quotations were marked down.

A large number of rice retailers here withdrew from the HK and Kowloon Rice Retailers General Association because of the imposition of a new system which requires payment to be made by retailers and wholesalers within 30 days after the conclusion of a transaction. Many retailers who had bought large quantities of rice found it difficult to meet the 30-day credit. The new payment system makes hoarding difficult; it has been introduced to stabilize prices.

(To be concluded)

Reports from China

(Continued from page 46)

Mountain range. The Lanchow-Sinkiang Railway, totalling some 2,800 kilometres, will extend from the railway hub of Lanchow across Western Kansu and Sinkiang to hook up with the railway network of the Soviet Union at the Alashan pass on the Sino-Soviet border. A 1,024-kilometre section from the starting point of Lanchow has already been opened to traffic. Work on the first section of the Lanchow-Chinghai Railway (174 kilometres long from Hokow to Sining) started last month. The entire Lanchow-Chinghai Railway will total 1,200 kilometres in length and will end at Lenghu in the Tsaidam Basin. It will hook up with the country's railway network at Hokow along the Lanchow-Sinkiang Railway and will be connected with the future Chinghai-Tibet Railway. The 174-kilometre section now under construction is expected to be completed by the end of next year.

Bridges—Work started in mid-May on the 2,890-metre bridge to span the Yellow River at Chengchow, the junction of China's two cross-country railways, the Peking-Canton and the Lunhai railways. The bridge will take over the work of the existing railway bridge at the city. When the Sanmen Gorge Reservoir in the upper reaches of the river is completed, the water from the reservoir will wash away the sand on the river bed at this point and reduce the river bed surface by 27 metres. The foundation of the old bridge is only 16 metres deep. The foundation work of the new bridge is 40 metres deep. The whole bridge has 71 arches, and it is seven metres above the surface of the river. When the Yellow River harnessing project is completed, ships will be able to pass under it in all seasons. The bridge is double-tracked. According to the state plan, the bridge is to be completed in

1960. The existing bridge across the Yellow River here was built by a Belgian industrial and banking enterprise 54 years ago. The new bridge was designed by the Ministry of Railways, with help of Soviet experts. Preparations for the project began as early as 1953. China is also constructing a second bridge across the Yangtze River at Chungking in Szechwan. The Engineering Bureau of the Yangtze River Bridge will also build three railway bridges along the double-tracked section of the Peking-Canton Railway in Southern Hopei and Northern Honan.

The Grand Canal—Large-scale dredging has begun on the Grand Canal to restore navigation on this 1,700-kilometre-long man-made waterway. Hundreds of thousands of civilian workers are now working on the project. When completed, the canal will link the Haiho River which flows into the sea near Tientsin, the Yellow River with the Huai River, the Yangtze River and the Chientangkiang River in Chekiang Province. Thus this will form a waterway network covering more than half of China. The restoration and expansion of the canal includes the digging of a new canal between Peking and Tientsin and the widening and deepening of the river bed between Tientsin and Hangchow, so that the whole canal is navigable to 2,000 ton motor barges. In addition, some of the meandering sections of the canal will be straightened out. The total length of the canal will be reduced from 1,700 kilometres to 1,583 kilometres. The canal runs across the four provinces of Hopei, Shantung, Kiangsu and Chekiang. It was once a communications artery between the North and the South. The Suiyang Emperor of the Sui Dynasty (581-613 AD) known for his extravagance, once toured the South along the canal on a dragon barge 15 metres high and 70 metres long. Together with the boats used by the emperor's concubines, lords, princesses, officials, monks, nuns and maids, the whole procession had more than 10,000 boats.

Economic Letter from Manila

(Continued from page 53)

Outward Investment Remittances of the Philippines
1950 thru March, 1958
(In U.S. Dollars)

	Total	Capital for Investment Abroad	Withdrawal of Investment in the Phil.	Earnings, Profits & Dividends	Others
1950	17,540,909	970,988	—	14,451,560	2,118,340
1951	29,822,306	161,464	2,350,251	25,193,838	2,116,752
1952	23,724,492	49,749	958,558	21,331,543	1,384,640
1953	31,557,161	3,650	3,015,830	24,485,929	4,051,750
1954	25,871,273	149,203	1,792,459	18,364,520	5,565,089
1955	24,215,767	250,058	1,026,714	17,881,485	5,057,509
1956	19,190,597	100	899,582	12,941,283	5,349,631
1957	22,796,058	34,904	681,158	17,604,324	4,475,670
1958—January	1,057,634	—	21,612	813,003	223,018
—February	1,295,262	—	33,435	915,982	345,844
—March	1,341,665	—	83,493	1,046,260	211,911
TOTALS	198,413,127	1,620,118	10,863,097	155,029,731	30,900,178

What has been transacted through the black markets—huge amounts!—is of course not known, fully, to the Central Bank.

Financing the Philippine Budget
Through Taxation

(Continued from page 52)

(8) Providing for the payment of rewards to informers; although assailed as immoral, it would bolster the campaign now being waged for a more effective enforcement of all internal revenue laws.

In formulating the tax proposals to meet increased budget requirements for fiscal year 1959, the National Government through the Tax Advisory Board is guided by the following principles:

1. To avoid increasing the burden of the average taxpayer. 2. To assess sectors of the economy not bearing their proportionate share of the costs of Government. 3. To place emphasis on progressive rather than regressive factors in the tax system, with ability to pay as the principal criterion. 4. To provide business incentives. 5. To use the tax system as an instrument for achieving equal distribution of the fruits of the National economy.

An equally important tax revision is the case of new and necessary industries which are exempt from all taxes. After eight years of active implementation, most of the industries protected are found to be making huge profits in addition to the subsidy received from the Government. The economic controls alone are adequate to put them on a competitive basis. As of today, these enterprises have deprived the government of income by about P48.5 million.

The breakdown of the capitalization and number of new and necessary industries is shown in Table 5.

TABLE 5
Capitalization and number of new and necessary
industries classified by nationality
(As of December 31, 1957)

Nationality	Capitalization	Number of Industries
Filipino	P140,380,005.53	463
American	22,795,429.67	29
Chinese	29,516,435.37	132
Combined Nationality	14,721,790.00	190
	P205,671,660.57	814

Conclusion

The tax system is the ultimate foundation of development finance. It is essential to the financing of both current operating expenses and development outlays. It is also essential to the curbing of inflation brought about by heavy development spending. Lastly, it is the most potent fiscal tool in assuring

a balance between saving and investment necessary in the process of economic development.

At present the Philippine tax system is suffering from certain basic but remediable defects. Less than one per cent of the employed labor force filed their income tax returns two years ago. Increase the number to two or three per cent and we double or treble the yield from this source. Substantial taxes are collected from the final consumers through indirect taxes without regard to ability to pay. A shift to more direct taxes with progressivity as a feature will be in consonance with the principle of ability to pay. The practice of extending expiring tax laws yearly which should have been made permanent is not in keeping with the concept of long-range planning. There is therefore an urgent need for a tax research program as recommended in the Budget Message for 1958.

Even with the proposed tax revision and increases, only about 10 per cent of the national income will be diverted to the Government by taxation. The experience of other countries engaged in economic development indicates that levels of taxation above 15 per cent can be achieved without impairing economic stability. The government must take its own initiative in establishing tax sources to foster an economic environment conducive to development.

Hongkong Notes and Reports

(Continued from page 57)

of those attending, except in the case of major damage raising the question of rebuilding, or renewal of lease, both of which require assent of over 50 per cent of all the owners. (10) Any owner or owners can call on other owners concerned to carry out works of maintenance or decide by resolution and, if they fail to co-operate, can carry out the work themselves and claim from the defaulting owners. (11) A defaulter without cause, or who has been found against by arbitration, shall be liable to have his premises sold and the amount with which he is chargeable deducted from the proceeds of sale. (12) Service of notices can be carried out by posting these on the unit premises or by registered post sent to the unit owner's last known address in the Colony. (13) Disputes shall be referred to arbitration.